Mogale City Local Municipality
Annual Financial Statements
for the year ended 30 June 2012

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Muncipality
Legislation governing the municipality's financial operations	Municipal Finance Management Act (Act No. 56 of 2003)
Mayoral committee	
Executive Mayor	Cllr. K.C. Seerane
Councillors	Speaker: Cllr. S.M. Thupane
	Chief Whip: Cllr. S. Dube
	MMC Finance: Cllr. F.O Bhayat
	MMC Human Settlement and Rural Development: Cllr. S. Letsie
	MMC Roads & Transport: Cllr. N.E. Mdlulwa
	MMC Corporate Services: Cllr. N.C Mangole
	MMC Infrastructure Development: Cllr. M. Khuzwayo
	MMC Local Economic Development: Cllr. B. Friedman
	MMC Health and Social Services: Cllr. E Mathe
	MMC Intergrated Environmental Management : Cllr. M.A Mathibe
	MMC Sports and Recreation: Cllr. K.A. Setswalo-Moja
	MMC Public Safety: Cllr. N. Kufa
Grading of local authority	4
Accounting Officer	Mr D.M Mashitisho
Chief Finance Officer (CFO)	Mr L.M.E Mahuma
Registered office	Civic Centre Cnr Commissioner & Market Street Krugersdorp 1740
Business address	Civic Centre Cnr Commissioner & Market Street Krugersdorp 1740
Postal address	P.O Box 94 Krugersdorp 1740
Bankers	Standard Bank
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the municipal council:

Abbreviations

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
SETA	Services Sector Education & Training Authority
GPR-HIV/AIDS	Gauteng Provincial Local Government and Housing
BKB	Bontle ke Botho
WRDM	West Rand District Municipality
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SRAC	Sports, Recreation, Arts & Culture
DWAF	Department of Water and Forestry
GDSD	Gauteng Department of Social Development

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledge that He/She is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has, or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors and internal auditors.

The annual financial statements set out on pages 4 to 100, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012:

Mr. D.M. Mashitisho
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2012	Restated 2011
ASSETS			
CURRENT ASSETS			
Inventories	9	12,042,854	17,092,208
Other receivables from exchange transactions	10	44,284,188	31,934,879
Consumer debtors	11	304,658,746	293,846,200
Cash and cash equivalents	12	43,775,288	39,906,264
Operating lease asset	49	398,477	361,893
		405,159,553	**383,141,444**
NON-CURRENT ASSETS			
Investment property	3	570,087,183	594,654,889
Property, plant and equipment	4	5,030,543,693	4,900,678,498
Intangible assets	5	4,421,169	5,928,022
Other financial assets	6	44,562,145	38,893,698
Biological assets	48	3,395,876	-
		5,653,010,066	**5,540,155,107**
Total Assets		**6,058,169,619**	**5,923,296,551**
LIABILITIES			
CURRENT LIABILITIES			
Retirement benefit obligation	8	7,828,856	7,701,821
Bank overdraft	12	-	570,602
Finance lease obligation	14	9,215,743	3,847,688
Unspent conditional grants and receipts	15	13,874,101	10,437,547
Provisions	16	14,146,715	11,629,994
Trade and other payables from exchange transactions	17	341,903,168	297,880,561
Other financial liabilities	18	17,961,031	11,158,838
Sundry deposits	19	8,551,654	7,593,896
VAT payable	20	68,632,136	63,845,298
Consumer deposits	21	35,997,439	33,294,313
Operating lease liability	49	482,394	-
		518,593,237	**447,960,558**
NON-CURRENT LIABILITIES			
Retirement benefit obligation	8	95,088,897	85,241,263
Finance lease obligation	14	12,020,871	10,492,509
Provisions	16	52,428,724	46,793,432
Other financial liabilities	18	177,131,998	194,539,357
Operating lease liability	49	128,619	-
		336,799,109	**337,066,561**
TOTAL LIABILITIES		**855,392,346**	**785,027,119**
NET ASSETS		**5,202,777,273**	**5,138,269,432**
NET ASSETS			
Accumulated surplus		5,202,777,273	5,138,269,432

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
REVENUE			
Property rates	24	247,752,947	217,375,414
Property rates - Penality imposed and collection charges		11,724,620	12,225,618
Service charges	25	951,363,075	790,204,861
Government grants & subsidies	26	292,672,706	268,572,124
Rental of facilities and equipment	27	3,148,630	7,738,915
Interest received - external investment	28	8,189,973	7,443,563
Dividends received	28	12,688	11,224
Interest received - outstanding debtors		10,202,152	7,547,349
Fines		11,035,560	13,159,396
Licences and permits		23,129	30,891
Income from agency services		19,075,486	15,926,124
Other income	29	222,579,398	77,192,837
TOTAL REVENUE		**1,777,780,364**	**1,417,428,316**
EXPENDITURE			
Employee related costs	30	(397,067,503)	(373,270,708)
Remuneration of councillors	31	(17,954,208)	(16,313,074)
Depreciation and amortisation	32	(208,355,759)	(222,978,130)
Impairment of assets	33	(6,556,586)	(4,738,270)
Finance costs	34	(45,285,417)	(33,209,415)
Contracted services	35	(147,059,741)	(122,484,944)
Grants and subsidies paid	36	(19,893,178)	(6,484,449)
Bulk purchases	37	(540,934,961)	(440,397,457)
Debt impairment	38	(82,208,112)	(48,032,071)
Collection costs		(26,478,406)	(16,021,767)
Repairs and maintenance		(62,552,199)	(88,250,347)
General Expenses	39	(158,926,485)	(130,047,675)
TOTAL EXPENDITURE		**(1,713,272,555)**	**(1,502,228,307)**
SURPLUS/(DEFICIT) FOR THE YEAR		**64,507,809**	**(84,799,991)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	5,163,932,496	5,163,932,496
Adjustments		
Prior year adjustments(note 44)	59,136,927	59,136,927
Balance at 01 July 2010 as restated	**5,223,069,423**	**5,223,069,423**
Changes in net assets		
Deficit for the year	(84,799,991)	(84,799,991)
Total changes	(84,799,991)	(84,799,991)
Opening balance as previously reported	5,347,200,247	5,347,200,247
Adjustments		
Prior year adjustments(note 44)	(208,930,783)	(208,930,783)
Balance at 01 July 2011 as restated	**5,138,269,464**	**5,138,269,464**
Changes in net assets		
Surplus for the year	64,507,809	64,507,809
Total changes	64,507,809	64,507,809
Balance at 30 June 2012	**5,202,777,273**	**5,202,777,273**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Property rates		288,373,404	227,484,003
Sale of goods and services		840,059,156	650,783,947
Grants		302,000,914	261,278,918
Interest income		8,189,973	7,443,563
Dividends received		12,688	11,224
Other receipts		271,076,308	309,341,352
		1,709,712,443	1,456,343,007
Payments			
Employee costs		(418,880,383)	(393,094,654)
Suppliers		(881,690,071)	(715,436,292)
Finance costs		(45,285,417)	(33,209,415)
Other payments		-	(156,939,400)
		(1,345,855,871)	(1,298,679,761)
Net cash flows from operating activities	40	**363,856,572**	**157,663,246**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(368,826,409)	(177,237,713)
Proceeds from sale of property, plant and equipment	4	28,121,194	1,739,500
Movements of investment property	3	-	(63,499,548)
Purchase of other intangible assets	5	-	(5,983,511)
Proceeds from sale of other intangible assets	5	-	298,195
Movements of financial assets		(5,668,447)	(4,928,003)
Purchases/Transfers of biological assets	48	(3,395,876)	-
Net cash flows from investing activities		**(349,769,538)**	**(249,611,080)**
Cash flows from financing activities			
Movements of other financial liabilities		(10,605,166)	41,504,260
Movements in sundry deposits		957,758	788,722
Net cash flows from financing activities		**(9,647,408)**	**42,292,982**
Net increase/(decrease) in cash and cash equivalents		**4,439,626**	**(49,654,852)**
Cash and cash equivalents at the beginning of the year		39,335,662	88,990,514
Cash and cash equivalents at the end of the year	12	**43,775,288**	**39,335,662**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies are consistent with those used to present the previous year's annual financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.1 Significant judgements and sources of estimated uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. When any significant judgements and sources of estimates uncertainty are applicable, they have been disclosed in the relevant notes and policies.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment. Heritage assets, which are culturally significant resources and shown at cost are not depreciated owing to the uncertainty regarding their useful lives. Similarly land is not depreciated as it is deemed to have an infinite life.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimates of the cost of dismantling and removing the assets and restoring the site.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary asset, or a combination of monetary and non-monetary asset, the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Accounting Policies

1.2 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met. The municipality maintains and aquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined. Depreciation is calculated on cost, using the straight line method, over the estimated useful lives of the assets.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	
• Landfill site	Indefinite
Infrastructure	
• Electricity mains	20-30 years
• Roads	15-60 years
• Water Networks	15-20 years
• Gas	0-20 years
• Sewage	15-20 years
• Pedestrian Malls	20 years
• Airports	20 years
• Security Measures	5 years
• Storm Water	20-60 years
• Pipe Works	10-100 years
• Substations	45 years
Community	
• Buildings	30 years
• Recreation facilities	20 years
Other property, plant and equipment	
• Office equipment	5-10 years
• Furniture & Fittings	7-10 years
• Bins and Containers	5-10 years
• Emergency Equipment	5-15 years
• Motor Vehicles	3-20 years
• Plant and Equipment	2-15 years
• Others	15-100 years
Heritage	0 Years

Accounting Policies

1.2 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in the statement of financial performance unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Investment property

Investment property includes property (land or a building - or part of a building - or both land and buildings held under finance lease) held to earn rentals or for capital appreciation, rather than held to meet service delivery objectives, production and supply of goods or services, or sale of assets in the ordinary course of operations

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost value. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date(30 June 2012).

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Compesation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compesation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances.

When the classification is difficult, the criteria used to distingish investment property from owner-occupied property and from property held for sale in the ordinary course of business are as follows.
Mogale City has adopted fair value measurements on its investment properties.

Accounting Policies

1.4 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. Intangible assets are identifiable resources controlled by the municipality from which the municipality expects to derive future economic benefits or service pontential.

Intangible asset are identifiable when they can be separated from an economic entity, is capable of being separated or derived from the municipality and sold, exchanged, licensed or when they arise as a result of a contractual or other legal right, excluding those rights that arise from the statute.

An Intangible asset is recognised in the statement of financial position only when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, its cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

Intangible assets are derecognised when the asset is disposed off or when the are no future economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. the gain or losses is recognised in surplus or deficit when the asset is derecognised.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment financial assets
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Initial recognition

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement

When a financial asset or financial liability is recognised initially, the economic entity measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the economic entity establishes fair value by using a valuation technique.

The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the economic entity uses that technique.
The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the economic entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. The economic entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the economic entity applies the following to determine the amount of any impairment loss:
Financial assets carried at amortised cost: If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in surplus or deficit.
Financial assets carried at cost: If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.
Available-for-sale financial assets: When a decline in the fair value of an available-for-sale financial asset has been recognised in accumulated surplus or deficit and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in accumulated surplus or deficit is reclassified from accumulated surplus or deficit to surplus or deficit as a reclassification adjustment even though the financial asset has not been derecognised.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other payables

Accounting Policies

1.5 Financial instruments (continued)

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.5 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Catergorisation

Accounting Policies

1.5 Financial instruments (continued)

The economic entity has various types of financial instruments and these can be broadly catergorised as either financial assets or financial liabilities.
A financial asset is any asset that is:
- cash
- contractual right to receive cash or to receive another financial asset from another entity
- a contractual right to exchange financial instruments on potentially favourable terms
- an equity instrument of another entity
- a contract that may or will be settled in the entity's own equity instrument (subject to certain conditions)

The economic entity has the following types of financial assets as reflected on the face of the statement of Financial Position or in the notes thereto
- Investments
- Long term receivables
- Consumer debtors
- Other receivables
- Cash and cash equivalents
- Unlisted shares

In accordance with IAS 39.09 the financial assets of the economic entity are classified as follows into one of the four categories allowed by the standards

The type of financial asset classification in terms of IAS 39.09
- Investments held to maturity
- Long term loans and receivables
- Consumer debtors and receivables
- Other loans and receivables
- Bank balances and cash available for sale
- Unlisted shares available for sale

A financial liability is any liability that is:
- a contractual obligation to deliver cash or to deliver another financial asset
- a contractual obligation to exchange financial instruments on potentially unfavourable terms

The economic entity has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:
- Long term liabilities
- Trade and other payables
- Consumer deposits
- Unspent conditional grants and receipts

There are two main categories of financial liabilities, classified based on how they are measured. An y other financial liabilities are classified as financial liabilities that are not measured at fair value through profit and loss.

In accordance with IAS 39.09 the financial liabilities of the economic entity are classified only as financial liabilities that are not measured at fair value through profit or loss because none of the following instruments are held for trading.

Type of financial liabity classification in terms of IAS 39.09
- Long term liabilities are financial liabilities that are not measured at fair value through profit and loss.
- Consumer deposits are financial liabilites that are not measured at fair value through profit and loss
- Trade and other payables are financial liabilities that are not measured at fair value through profit and loss
- Unspent conditional grants and receipts are financial liabilities that are not measured at fair value through profit and loss

Derecognition

Financial assets

1.5 Financial instruments (continued)

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis or group, based on expected cashflows. At each balance sheet date an assessment is made of whether there is any objective evidence of impairment of financial assets. If the is evidence then the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39 as an expense in the Statement of Financial Performance. Separate classes of loans and receivables were assessed for impairment using the following methodologies.

Sundry Deposits.
Sundry deposits are assessed for impairment to ensure that no objective evidence exist that these deposits are irrecoverable.

Sundry Debtors.
Sundry debtors are those suspense control accounts classified as financial instruments with debit balances as at year end. Sundry debtors are assessed individually for impairments to ensure that no objective evidence exists that these debtors are irrecoverable

1.6 Leases

Where substantially all the risks and rewards associated with ownership of an asset are transferred to the economic entity, the lease is classified as a finance lease. Operating leases are those leases that do not transfer substantially all the risks and rewards associated with ownership of an asset to the economic entity.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the Statement of Financial Position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Accounting Policies

1.6 Leases (continued)

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease. Lease payment relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

Finance leases - lessee

At the commencement of the lease term, the economic entity recognise finance leases as assets and liabilities in the statement of financial position at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the economic entity's incremental borrowing rate is used. Any initial direct costs of the economic entity are added to the amount recognised as an asset. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rents are charged as expenses in the periods in which they are incurred. A finance lease gives rise to a depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned, and the depreciation recognised is calculated in accordance with the relevant accounting policy that the specific depreciable leased asset relates to. If there is no reasonable certainty that the economic entity will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating leases - lessor

The economic entity present assets subject to operating leases in the Statement of Financial Position according to the nature of the asset. Lease revenue from operating leases is recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished. Costs, including depreciation, incurred in earning the lease revenue are recognised as an expense. Lease revenue is recognised on a straight-line basis over the lease term even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by the economic entity in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue. The depreciation policy for depreciable leased assets is consistent with the economic entity's normal depreciation policy for similar assets.

Operating leases - lessee

Lease payments under an operating lease are recognised as an expense in the Statement of Financial Performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit to the economic entity.
Finance leases - lessee Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the . Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability. Any contingent rents are expensed in the period in which they are incurred.

1.7 Inventories

Accounting Policies

1.7 Inventories (continued)

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.
Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process. Where inventory is acquired by the economic entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.
Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Redundant and slow-moving inventories are identified and written down in this way. Inventories identified for write down/write off, but for which a council resolution, to authorise the write down/write off, has not yet been obtained, is provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The weighted average method is the basis of allocating costs to inventories. Unsold properties are valued at cost. Direct costs are accumulated for each separately identifiable development.

1.8 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Defined contributions plans are post employment benefits which the municipality pays fixed contributions into medical aid scheme for pensioners who previuosly worked for Mogale City and their spouses

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Accounting Policies

1.8 Employee benefits (continued)

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

Accounting Policies

1.9 Provisions and contingent liabilities and assets

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate and those which can be settled within twelve months are treated as current liabilities. All other provisions are treated as non current liabilities.

A provision is used only for expenditures for which the provision was originally recognised

All contigencies are disclosed in the financial statements as note describing the nature timing and extent of the event.

a) Leave accrual
Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end

b) Landfill rehabilitation provision
The landfill rehabilitation provision is created for the rehabilitation of the current operational landfill site at an estimated time of closure.The value of the provisions based on the expected future cost to rehabilitate the various sites discounted back to the balance date at the cost to capital which is 10%
The municipality has an obligation to rehabilitate the landfill site, the costs include the initial estimate of the cost to rehabilitate the land and restoring the land and restoring the site, the obligation of the municipality incurs as a result of having used the property during the particular period for landfill purposes.

The municipality estimates that the useful life of landfill sites and assumptions thereto which influence the future cost to be provided for.

The asset is measured using the cost model:

(a) subject to changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit

c) Long service award
The municipality offers various types of long service awards to its employees. The present value of the long service award obligation depends on the actuarial assumptions. The assumptions used to determine the obligation include the discount rate, inflation, the average retirement age and the acturial assumptions. The increase or decrease on the obligation is recognised in the Statement of Finanacial Perfomance. The obligation is recognised on the statement of financial position.

d) Gratuity payment provision
The provision is for the unpaid periods and is based on the pro rata accrual to retired employees based on the council resolution

e) Bonus provision
The provision is based on the bonus accruing to all the employees of the municipality

f) Workmans compensation
The provision is for the unpaid periods, estimated in the latest return submitted to the compensation commissioner.

1.10 Revenue from exchange transactions

Accounting Policies

1.10 Revenue from exchange transactions (continued)

Revenue from exchange transactions refers to revenue that accrued to the economic entity directly in return for services rendered /goods sold, the value of which approximates the consideration received or receivable. Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners. Revenue is measured at the fair value of the consideration received or receivable. When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.
The imputed rate of interest is the more clearly determinable of either:

- the prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue. Service charges relating to electricity and water are based on consumption. Meters are read on a periodic basis and revenue is recognised when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period. There are areas within the economic entity were an un-metered water tariff is applied based on estimated consumption as per promulgated tariffs. Revenue for these is recognised when invoiced

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property size, and are levied monthly.
Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis. Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement. Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Dividends are recognised when the economic entity's right to receive payment is established. Revenue from the sale of goods is recognised when the following conditions have been satisfied:

- the economic entity has transferred to the buyer the significant risks and rewards of ownership.
- the economic entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- the amount of revenue can be measured reliably.
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity.
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

Accounting Policies

1.11 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the economic entity received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.
Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis. A rating system charging one tariff is employed. Rebates and remissions are granted to certain categories of ratepayers and are recognised net of revenue.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of fines that will be received based on past experience of amounts collected. Revenue from public contributions and donations is recognized when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the economic entity.

Where public contributions have been received but the economic entity has not met the related conditions, a deferred income (liability) is recognized. Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the economic entity.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

1.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on impairment of assets as per accounting policy number 1.13 and 1.14. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds 3 months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting Policies

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Impairment of cash-generating assets (continued)

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset’s remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the Statement of Financial Position in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's Supply Chain Management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.18 Biological assets

An entity shall recognise a biological assets or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less point-of-sale costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Currently the Biological assets of the municipality are not depreciated.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.
To the extent that the criteria, conditions or obligations have not been met a liability is recognised as deferred income.

Accounting Policies

1.21 Corresponding figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.
Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.22 Budget information

Budget information has been provided as per note 55 and Capital commitments to these financial statements

1.23 Going concern

These annual financial statements have been prepared on a going concern basis.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 New standards and interpretations

Standards and interpretations effective and adopted in the current year:

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities

The interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:
• recognised as part of the cost of an item of property, plant and equipment in accordance with the Standard of GRAP on Property, Plant and Equipment (as revised in 2010); and
• recognised as a liability in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010) .

The interpretation addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:
• a change in the estimated outflow of resources embodying economic benefits (e.g. cash flows) or service potential required to settle the obligation;
• a change in the current market-based discount rate as defined in paragraph .52 of the Standard of GRAP on Provisions,

Contingent Liabilities and Contingent Assets (as revised in 2010) (this includes changes in the time value of money and the risks specific to the liability); and
• an increase that reflects the passage of time (also referred to as the unwinding of the discount).

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 3: Determining Whether an Arrangement Contains a Lease
This Interpretation of the Standards of GRAP does not apply to arrangements that are, or contain, leases excluded from the scope of the Standard of GRAP on Leases (as revised in 2010).

The issues addressed in this Interpretation of the Standards of GRAP are:
• how to determine whether an arrangement is, or contains, a lease as defined in the Standard of GRAP on Leases (as revised in 2010);
• when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and
• if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
This Interpretation of the Standards of GRAP applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:

The issues addressed in this Interpretation of the Standards of GRAP are:
• the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
• a contributor's right to access the assets is restricted.

A residual interest in a fund that extends beyond a right to reimbursement, such as a right to distributions once all the

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)
decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of the Standard of GRAP on Financial Instruments and is not within the scope of this Interpretation of the Standards of GRAP.

The issues addressed in this Interpretation of the Standards of GRAP are:
• how should a contributor account for its interest in a fund?
• when a contributor has an obligation to make additional contributions, for example, in the event of the liquidation of another contributor, how should that obligation be accounted for?

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
This Interpretation of the Standards of GRAP provides guidance on how to apply the requirements of the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010) in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010).

The questions addressed in this Interpretation of the Standards of GRAP are:
• how should the requirement '… stated in terms of the measuring unit current at the reporting date' in paragraph .10 of the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010) be interpreted when an entity applies the Standard of GRAP?
• a contributor's right to access the assets is restricted.

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 6: Loyalty Programmes
This Interpretation of the Standards of GRAP is not applicable to the municipality

The effective date of the interpretation is for years beginning on or after the 1 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
This Interpretation of the Standards of GRAP applies to all post-employment defined benefits and other long-term employee defined benefits.

For the purpose of this Interpretation of the Standards of GRAP, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

The issues addressed in this Interpretation of the Standards of GRAP are:
• When refunds or reductions in future contributions should be regarded as available in accordance with paragraph .68 of the Standard of GRAP on Employee Benefits.
• How a minimum funding requirement might affect the availability of reductions in future contributions.

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of assets in exchange transactions directly or through subcontractors. The construction of assets entered into by entities where funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue or by aid or grant funds are excluded from the scope of this Interpretation of the Standards of GRAP.

Agreements in the scope of this Interpretation of the Standards of GRAP are agreements for the construction of assets in exchange transactions. In addition to the construction of assets in exchange transactions, such agreements may include the delivery of other goods or services.

The Interpretation of the Standards of GRAP addresses two issues:
• Is the agreement within the scope of the Standard of GRAP on Construction Contracts (as revised in 2010) or the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010)?
• When should revenue from the construction of assets in exchange transactions be recognised?

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 9: Distributions of Non-cash Assets to Owners

This Interpretation of the Standards of GRAP is not applicable to the municipality.

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation on adoption.

IGRAP 10: Assets Received from Customers

This Interpretation of the Standards of GRAP applies to the accounting for the receipt of items of property, plant and equipment by entities that receive such assets from their customers.

Agreements within the scope of this Interpretation of the Standards of GRAP are those in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP does not apply to agreements in which the receipt occurs as part of a non-exchange transaction as defined in the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), or infrastructure used in a public-private partnership agreement (see the Guideline on Accounting for Public-private Partnerships), or assets received in a transfer of functions.

The Interpretation of the Standards of GRAP addresses the following issues:
• Is the definition of an asset met?
• If the definition of an asset is met, how should the received item of property, plant and equipment be measured on initial recognition?
• If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
• How should the entity account for a receipt of cash from its customer?

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 13: Operating Leases – Incentives

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent free or at a reduced rent.

The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease

A municipality may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease. For example, a municipality may lease assets to an investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly.

When an arrangement with an investor involves the legal form of a lease, the issues are:
• how to determine whether a series of transactions is linked and should be accounted for as one transaction;
• whether the arrangement meets the definition of a lease under the Standard of GRAP on Leases (as revised in 2010); and, if not,
-whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity;
-how the entity should account for other obligations resulting from the arrangement; and
-how the entity should account for a fee it might receive from an investor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.
The impact of the interpretation is not material.

IGRAP 15: Revenue – Barter Transactions Involving Advertising Services

A municipality (seller) may enter into a barter transaction to provide advertising services in exchange for receiving other services from its customer. Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium. An example could be where a municipality offers advertising services to local businesses in its community newsletters in exchange for repairs and maintenance services provided by those businesses. These repair and maintenance services may, for example, take the form of repairing and maintaining office buildings or motor vehicles owned by the municipality.
In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.

A seller that provides advertising services in the course of its ordinary activities recognises revenue under the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010) from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar in terms of paragraph .18 in the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010) and the amount of revenue can be measured reliably in terms of paragraph .20(a) in the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010). This Interpretation of the Standards of GRAP only applies to an exchange of dissimilar services. An exchange of similar advertising services is not a transaction that generates revenue under the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010).

The issue is under what circumstances can a seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

The effective date of the interpretation is for years beginning on or after 01 April 2011.
The municipality has adopted the interpretation for the first time in the 2012 financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)
The impact of the interpretation is not material.

GRAP 1 (as revised 2010): Presentation of Financial Statements
The revision resulted in various terminology and definition changes.

Additional commentary has been added, describing the purpose of financial statements in the public sector.

Commentary has been added to explain that where legislation requires a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with the Standards of GRAP.

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets and the use of transitional provisions in accounting policy

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 2 (as revised 2010): Cash Flow Statements
The revision resulted in various terminology and definition changes.

Operating cash flows:
• Where a municipality is in the business of renting and subsequently selling the same assets, these cash flows should be regarded as operating rather than investing cash flows.
Investing cash flows:
• Only expenditures incurred on a recognised asset qualify to be classified as investing activities in the cash flow statement.
Acquisitions and disposals of controlled entities and other operating units:
• Guidance relating to acquisitions and disposals of entities, particularly those on another basis of accounting, has been deleted.

Disclosure of undrawn borrowing facilities, restricted cash balances and the operating, investing and financing cash flows of jointly controlled entities accounted for using the proportionate consolidation method, now encouraged rather than required.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors
The revision resulted in various terminology and definition changes.

Paragraphs added to Changes in accounting policies:
• A change from one basis of accounting to another basis of accounting is a change in accounting policy.
• A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

Selection of accounting policies:
• The reference to the Accounting Practices Committee (APC) of SAICA has been deleted from paragraph .11 on the basis that it is not a standard setter and that entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC.
• Commentary on the selection of benchmark and alternative accounting policies has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates
Terminology changes:
Where reference has been made to the net realisable values of inventories, current replacement cost has also been included to allow for the appropriate valuation of inventories where they are distributed as part of a non-exchange transaction. Reference to ‘trade’ receivables has been amended to ‘receivables’.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Monetary items:
Paragraph .15 clarifies that child support grants are ‘payables’, and not just ‘obligations’ in terms of the current requirements of the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (GRAP 19).

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 9 (as revised 2010): Revenue from Exchange Transactions
The revision resulted in various terminology and definition changes.

Various amendments, deletions and additions to examples included in the appendix.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies
Certain terminology changes:
• The reference to ‘current cost’ in paragraph .30 has been deleted.
• Where reference has been made to ‘net realisable value’, ‘current replacement cost’ has been added.

Net monetary position:
References to ‘surplus’ or ‘deficit’ have been changed, throughout the document, to ‘gain’ or ‘loss’.
Interpretations:
Text included in this Standard of GRAP from IFRIC Interpretation 7 on Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

2. New standards and interpretations (continued)

GRAP 11 (as revised 2010): Construction Contracts
The revision resulted in certain terminology changes:

Other amendments:
• An example has been added to clarify when an entity acts as a contractor in a construction contract arrangement.
• The example in paragraph .11 has been deleted as it is inappropriate for the South African public sector.
• The explanatory text relating to 'contractors' has been amended to clarify that an entity can be a contractor if it performs construction related activities itself or through subcontractors.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 12 (as revised 2010): Inventories
The revision resulted in various terminology and definition changes.

Cost formulas:
Paragraph .34 was amended and .35 was added to separate the principle from the exception when applying the cost formula for inventories with a similar nature and use to the entity.

Recognition as an expense:
Where reference has been made to 'net realisable value', 'current replacement cost' has been added.

Fair value measurement:

The appendix on how to determine fair value has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 13 (as revised 2010): Leases
The revision resulted in various terminology and definition changes.

Scope:
Paragraph .04 has been included to clarify that this Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Non-current Assets Held for Sale and Discontinued Operations:
Paragraph .51 has been added to clarify that finance lease assets classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations shall be accounted for in accordance with that Standard.

Guidance on accounting for finance leases by lessors:
The paragraph (previously paragraph .53) that provided guidance on the recognition of assets where entities enter into arrangements with private sector entities has been deleted as the Guideline on Accounting for Public Private Partnerships supersedes this guidance.

Guidance on operating lease incentives and substance over legal form:
The guidance included in the original text on substance over legal form has been deleted.
Classification of leases on land and buildings elements:
The guidance on the classification of land and buildings has been amended to ensure that the element of the lease relating to the land is classified as a finance lease where significant risks and rewards have been transferred, despite there being no transfer of title, consistent with the general classification guidance.

The effective date of the amendment is for years beginning on or after 01 April 2011.

2. New standards and interpretations (continued)
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 14 (as revised 2010): Events After the Reporting Date
Existence of a liability for dividends or similar distributions:
Paragraph .13 of GRAP 14 was amended to clarify that no liability exists at the reporting date for dividends or similar distributions declared after the reporting date.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 16 (as revised 2010): Investment Property

The revision resulted in various terminology and definition changes.
Recognition of investment property:
Additional commentary has been included in paragraph .19 and .20 to explain paragraph .18 that outlines the recognition criteria for investment property;
This Standard of GRAP includes investment property under construction as it was inconsistent with the requirement that investment property being redeveloped was still within the scope of this Standard of GRAP, but not the initial development. As a result paragraphs .10 and .11 were amended, paragraphs .60 and .61 inserted, and paragraphs .25 and .65(e) of the original text deleted;
The measurement principles were also amended accordingly to allow investment property under construction to be measured at cost if fair value cannot be measured reliably, until such time as the fair value can be measured reliably; and
Additional guidance has been included in the examples of investment property to clarify that the rentals earned do not have to be on a commercial basis or market related for the property to be classified as investment property.

Disclosure:
Municipalities are encouraged, rather than required, to disclose the fair value of investment property when this is materially different from the carrying amount.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 17 (as revised 2010): Property, Plant and Equipment

The revision resulted in various terminology and definition changes.
Scope:
The recognition and measurement of exploration and evaluation assets have been added to the scope exclusions; and
Investment properties under construction have been removed from the scope.
Measurement at initial recognition:
Paragraph .23 and .24 have been amended to clarify that the guidance applicable to determine fair value for revalued assets applies equally to the initial measurement of items of property, plant and equipment at fair value.
Depreciable amount and depreciation period:
An additional paragraph has been added to clarify that reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.
Derecognition:
The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed; and
Paragraph .79 has been added in line with the IASB Improvements Project to clarify that where assets are held for rental to others in the ordinary course of operations and the municipality subsequently sells the assets, the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations does not apply. Rather, these assets are to be transferred and treated in accordance with the Standard of GRAP on Inventories.
Disclosures:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)
The required disclosures in paragraph .90 have been amended to encouraged disclosures. Added to the list of encourage disclosures is the fair value disclosure of assets where the cost model is used; and
The requirement to disclose the cost basis for revaluated assets was removed.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets
The revision resulted in certain terminology changes.

Social benefits:
Paragraphs .08 and .16(a) clarify that social benefits due at year end are ‘payables’, as the amounts due are certain in terms of legislation.

Binding agreements for restructurings:
Paragraph .87 has been amended to clarify that restructurings may take place in the public sector in terms of directives, legislation or other means. These alternative means are enforceable and may give rise to an obligation.

Interpretations:
In developing the Standard initially, the Board included relevant text from any Interpretation that had been issued by the International Financial Reporting Interpretations Committee (IFRIC) relating to provisions, contingent liabilities and contingent assets. The Board included selected text from IFRIC 1 on Changes in Decommissioning, Restoration and Similar Liabilities and IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds in line with the Board’s decisions. The Board concluded at its May 2008 meeting that it would issue any Interpretations as separate documents rather than dispersing the text of the Interpretations across various Standards. As a result, paragraphs .37 to .43, .74 to .80, and Appendix F of the previous version of GRAP 19, have been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations
The revision resulted in various terminology and definition changes.

Scope:
Paragraph .07 has been added to clarify the application of other Standards of GRAP to assets classified as non-current assets (or disposal groups) held for sale.

Plan to sell the controlling interest in a controlled entity:
•The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control in a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the required criteria are met.
• The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control of a controlled entity shall disclose the information required when the controlled entity is a disposal group that meets the definition of a discontinued operation.

Examples included in Appendix:
An additional example has been included regarding sale expected to be completed within one year.

The effective date of the amendment is for years beginning on or after 01 April 2011.
The municipality has adopted the amendment for the first time in the 2012 financial statements.
The impact of the amendment is not material.

Standards and Interpretations not early adopted

The following standards and interpretations are effective and have not been early adopted by the municipality:

2. New standards and interpretations (continued)

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

A municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
• Depreciated replacement cost approach
• Restoration cost approach
• Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

A municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a noncash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.
It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality's operations.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.
It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality's operations.

2. New standards and interpretations (continued)

GRAP 24: Presentation of Budget Information in the Financial Statements
Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:
• the approved and final budget amounts;
• the actual amounts on a comparable basis; and
• by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:
• are prepared using the same basis of accounting i.e. either cash or accrual;
• include the same activities and entities;
• use the same classification system; and
• are prepared for the same period.

The effective date of the standard is for years beginning on or after 01 April 2012.
It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality's operations.

GRAP 25: Employee benefits
The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognise:
• a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
• an expense when a municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard GRAP states the recognition, measurement and disclosure requirements of:
• Short-term employee benefits;
-All short-term employee benefits;
-Short-term compensated absences;
-Bonus, incentive and performance related payments;
• Post-employment benefits: Defined contribution plans;
• Other long-term employee benefits;
• Termination benefits.

The major difference between this Standard of GRAP and IAS 19 is with regards to the treatment of actuarial gains and losses and past service costs. This Standard of GRAP requires a municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

The effective date of the standard is for years beginning on or after 01 April 2013.
It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality's operations.

GRAP 26: Impairment of cash-generating assets
Cash-generating assets are those assets held by a municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a

2. New standards and interpretations (continued)
commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.
If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, a municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
• the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
• the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, a municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.
It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality's operations.

GRAP 27: Agriculture

This Standard of GRAP replaces the previous Standard of GRAP on Agriculture (GRAP 101) due to the IPSASB that has issued an IPSAS on Agriculture (IPSAS 27).

The effective date of the standard is for years beginning on or after 01 April 2013.
It is unlikely that the standard will have a material impact on the municipality’s annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality’s operations.

2. New standards and interpretations (continued)
GRAP 31: Intangible Assets

This Standard of GRAP replaces the previous Standard of GRAP on Intangible Assets (GRAP 102) due to the IPSASB that has issued an IPSAS on Intangible Assets (IPSAS 31).

The effective date of the standard is for years beginning on or after 01 April 2013.
It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality's operations.

GRAP 103: Heritage Assets
Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:
• it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
• the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage

2. New standards and interpretations (continued)

asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:
• on disposal, or
• when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.
It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality's operations.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments.

Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.
In determening whether a financial intsruments is a financial asset, financial liability or a residual interests, a municipality considers the substance of the contract and not just the legal form.

Financial assets and financial liabilities are initially recognised at fair value. Where a municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest. Short term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and

Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:
• a derivative;
• a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
• held-for-trading;
• a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
• an investment in a residual interest for which fair value can be measured reliably; and
• other instruments that do not meet the definition of financial instruments at amortised cost or cost.

2. New standards and interpretations (continued)

• Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value.

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

A municipality derecognises a financial asset, or the specifically identified cash flows of an asset, when:
• the cash flows from the asset expire, are settled or waived;
• significant risks and rewards are transferred to another party; or
• despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

A municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

A municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.
GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality’s statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

The effective date of the standard is for years beginning on or after 01 April 2012.
It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.
The municipality does not envisage the adoption of the standard / interpretation until such time as it becomes applicable to the municipality's operations.

Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2012 or later periods:

IGRAP 16: Intangible Assets - Website Costs

The Interpretation deals with the treatment of a municipality's own website. The guidance on website costs was previously included in the Standard of GRAP on Intangible Assets.
It concludes that a municipaltity’s own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.
A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, a municipality can satisfy the requirements in paragraph .54 in the Standard of GRAP on Intangible Assets, which in particular requires a municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.
If a municipality is not able to demonstrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.
A website that is recognised as an intangible asset under this Interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

2. New standards and interpretations (continued)

The effective date of the interpretation is for years beginning on or after 01 April 2013.
The municipality expects to adopt the interpretation for the first time in the 2014 financial statements.
It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

GRAP 18: Segment Reporting
Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

No effective date has not yet been determined by the Minister of Finance.
The municipality expects to adopt the standard once it becomes effective.
The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

GRAP 20: Related Party Disclosures

The objective of this Standard of GRAP is to ensure that a municipality’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.
This Standard of GRAP requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the municipality in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This Standard of GRAP also applies to individual financial statements.
This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another municipality, entity or person are disclosed.
The Standard of GRAP sets out the requirements, inter alia, for the disclosure of:
Control;
Related party transactions; and
Remuneration of management

No effective date has yet been determined by the Minister of Finance.
The municipality expects to adopt the standard for the first time once it becomes effective.
It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 105: Transfers of functions between entities under common control
The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. A transfer of functions between municipalities under common control is a reorganisation and /or reallocation of functions bewteen municipalities that are ultimately controlled by the same entity before and after a transfer of functions. In the event of the transfer of funcitions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.
The difference between amount of consideration paid or received , if any , and the carrying amounts of assets and liabilities should be recognised in accumulated surplus/(deficit). Specific disclosures are required when there is a transfer of functions bewteen municipalities under commom control

No effective date has yet been determined by the Minister of Finance.
The municipality expects to adopt the standard for the first time once it becomes effective.
The impact of this standard is currently being assessed.

GRAP 106: Transfers of functions between entities not under common control

2. New standards and interpretations (continued)

The objective of this Standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.
A transfer of functions between municipalities not under common control is a reorganisation and /or reallocation of functions bewteen municipalities that are not ultimately controlled by the same entity before and after a transfer of functions. In the event of the transfer of funcitions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values and should be derecognised (by the acquiree) at their carrying amounts. The difference between amount of consideration paid or received , if any , and the fair value of assets and liabilities aquired assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in accumulated surplus/(deficit). for a transfer of functions bewtween municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles Specific disclosures are required when there is a transfer of functions bewteen municipalities under commom control

No effective date has yet been determined by the Minister of Finance.
The municipality expects to adopt the standard for the first time once it becomes effective.
The impact of this standard is currently being assessed.

GRAP 107: Mergers

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger. A merger is where a new combined municipality is started, no aquirer can be identified and the combining municipalities do not have any control over the municipality. in the event of the merger, the assets and liablities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by the combining municipalities) at their carrying amounts. the difference the carrying amounts of assets and liabilities should be recognised in accumulated surplus/(deficit). Specific disclosures are required when there is a merger.

No effective date has yet been determined by the Minister of Finance.
The municipality expects to adopt the standard for the first time once it becomes effective.
The impact of this standard is currently being assessed.

Improvements to Standards of Grap

The following standard of GRAP have been amended as part of the ASB's improvements project for 2011:
GRAP 1;
GRAP 3;
GRAP 7;
GRAP 9;
GRAP 12;
GRAP 13;
GRAP 16 and 17.

The changes made will have no significant impact, except for the following:
A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that that a standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010). A requirement to include transcation costs on initial recognition of an investment in an associate under the equity method, has been included in the Standard of GRAP Investments in Associates.
Changes were made to the Standard of GRAP on Property, Plant and Equipment (as revised in 2010) to ensure the consistent application of the principle where assets are acuired in exchange for non monetary assets when the exchange transcation lacks commercial substance. Further more the requirement to disclose property, plant and equipment that were temporarily idle, has been clarified.

The effective date of the amendment is for years begginning on or after 01 April 2013.
The municipality expects to adoptthe amendment for the first time in 2014 financial statements.
it is unlikely that the amendment will have a material impact on the municipalities financial statements.

3. Investment property

	2012	2011

Notes to the Annual Financial Statements

3. Investment property (continued)

	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	572,652,658	(2,565,475)	570,087,183	594,654,889	-	594,654,889

Reconciliation of investment property - 2012

	Opening balance	Impairments	Fair value adjustments	Total
Investment property	594,654,889	(2,565,475)	(22,002,231)	570,087,183

Reconciliation of investment property - 2011

	Opening balance	Additions	Fair value adjustments	Total
Investment property	475,519,554	63,499,548	55,635,787	594,654,889

Valuation of investment property was done as at 30 June 2010 . I@ consulting was appointed to do the valauation for all infrastructure assets including Investments Property. Investment Property are carried at fair value.
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.
Fair Value changes on investments property was as a results of change in market conditions.

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	522,175,359	(233,544,452)	288,630,907	443,151,849	(220,471,993)	222,679,856
Plant and machinery	22,411,575	(13,080,770)	9,330,805	22,855,061	(12,526,985)	10,328,076
Furniture and fixtures	11,643,436	(6,576,543)	5,066,893	9,125,134	(6,154,403)	2,970,731
Motor vehicles	16,534,528	(12,471,581)	4,062,947	20,399,410	(15,651,213)	4,748,197
Office equipment	2,141,235	(1,884,874)	256,361	2,099,580	(1,843,967)	255,613
IT equipment	13,500,336	(8,417,634)	5,082,702	13,114,754	(7,782,180)	5,332,574
Roads	3,275,319,554	(1,041,675,065)	2,233,644,489	3,234,986,644	(948,484,721)	2,286,501,923
Community	898,033,746	(366,501,819)	531,531,927	770,443,280	(344,569,981)	425,873,299
Bins and containers	6,643,060	(6,471,178)	171,882	6,643,060	(6,445,003)	198,057
Electricity	2,503,165,561	(1,510,721,964)	992,443,597	2,465,097,041	(1,474,952,362)	990,144,679
Emergency equipment	73,198	(18,431)	54,767	73,198	(9,134)	64,064
Other leased Assets	28,810,931	(11,174,707)	17,636,224	15,940,981	(2,649,001)	13,291,980
Animals PPE	261,000	(22,599)	238,401	-	-	-
Inventory items	1,212,171	(109,847)	1,102,324	129,138	(99,426)	29,712
Wastewater network	1,152,879,186	(642,558,161)	510,321,025	1,115,063,300	(623,480,003)	491,583,297
Water network	911,628,519	(480,711,438)	430,917,081	906,605,950	(459,980,871)	446,625,079
Heritage	51,361	-	51,361	51,361	-	51,361
Total	**9,366,484,756**	**(4,335,941,063)**	**5,030,543,693**	**9,025,779,741**	**(4,125,101,243)**	**4,900,678,498**

Notes to the Annual Financial Statements

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Buildings	222,679,856	79,582,320	(558,810)	(12,604,193)	(468,266)	288,630,907
Plant and machinery	10,328,076	156,996	(600,482)	(553,785)	-	9,330,805
Furniture and fixtures	2,970,731	2,531,099	(12,797)	(422,140)	-	5,066,893
Motor vehicles	4,748,197	89,880	(3,954,762)	3,179,632	-	4,062,947
Office equipment	255,613	41,855	-	(41,107)	-	256,361
IT equipment	5,332,574	449,381	(63,799)	(635,454)	-	5,082,702
Roads	2,286,501,923	40,332,910	-	(93,190,344)	-	2,233,644,489
Community	425,873,299	130,750,369	(3,159,903)	(18,531,516)	(3,400,322)	531,531,927
Bins and containers	198,057	-	-	(26,175)	-	171,882
Electricity	990,144,679	45,798,422	(7,729,902)	(35,647,078)	(122,524)	992,443,597
Emergency Equipment	64,064	-	-	(9,297)	-	54,767
Other leased Assets	13,291,980	12,869,950	-	(8,525,706)	-	17,636,224
Animals PPE	-	261,000	-	(22,599)	-	238,401
Inventory items	29,712	1,083,033	-	(10,421)	-	1,102,324
Wastewater network	491,583,297	49,856,625	(12,040,739)	(19,078,158)	-	510,321,025
Water network	446,625,079	5,022,569	-	(20,730,567)	-	430,917,081
Heritage	51,361	-	-	-	-	51,361
	4,900,678,498	**368,826,409**	**(28,121,194)**	**(206,848,908)**	**(3,991,112)**	**5,030,543,693**

Reconciliation of property, plant and equipment - Restated 2011

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Buildings	234,011,299	1,179,602	-	(12,511,045)	-	222,679,856
Plant and machinery	12,724,373	696,341	-	(3,092,638)	-	10,328,076
Furniture and fixtures	2,186,843	1,307,245	-	(523,357)	-	2,970,731
Motor vehicles	8,365,585	-	-	(3,617,388)	-	4,748,197
Office equipment	418,366	58,494	(200)	(221,047)	-	255,613
IT equipment	7,134,138	235,512	-	(2,037,076)	-	5,332,574
Roads	2,347,992,844	40,099,022	(846,692)	(98,456,967)	(2,286,284)	2,286,501,923
Community	418,977,580	26,643,267	(862,431)	(17,829,793)	(1,055,324)	425,873,299
Bins and containers	83,866	142,941	-	(28,750)	-	198,057
Electricity	990,609,296	40,782,942	-	(41,201,718)	(45,841)	990,144,679
Emergency Equipment	5,698	60,298	-	(1,932)	-	64,064
Other leased Assets	246,968	14,797,843	(9,427)	(1,743,404)	-	13,291,980
Inventory items	75,610	13,831	(20,750)	(38,979)	-	29,712
Wastewater network	463,921,920	47,991,956	-	(18,979,758)	(1,350,821)	491,583,297
Water network	464,081,424	3,228,419	-	(20,684,764)	-	446,625,079
Heritage	51,361	-	-	-	-	51,361
	4,950,887,171	**177,237,713**	**(1,739,500)**	**(220,968,616)**	**(4,738,270)**	**4,900,678,498**

Other information

Details of properties

Valuation of Property Plant and Equipment was done as at 30 June 2010 . I@ consulting was appointed to do the valuation for all infrastructure assets. Property plant and equipment is carried at costs.A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Figures in Rand	2012	2011

4. Property, plant and equipment (continued)

The effect between Assets and Income is as follows:

Transferers of Cradle of Humankind assets were as a result of demarcation of District Management Areas to Mogale City to the value of R 18,314,565
Acquisition of Capital Spares to the value of R7,732,388
Lanwen hostel donated to Mogale City to the value of R 36,852,981
Krugersdorp Game Reserve buildings was transferred to Mogale City at a value of R 89,002,061.
Krugersdorp Game Reserve animals was transferred to Mogale City at a value of R 3,847,093.
Buildings to the value of R 1, 000,000 was donated to Mogale City by the South African breweries.
Kagiso hostel was converted to family units at a value of R 33,094,933
Biological assets transferred to Mogale City at a value of R3,395,876
Krugersdorp Game Reserve moveable assets transferred to Mogale City at a value of R 190,217
Krugersdorp Game Reserve animals PPE transferred to Mogale City at a value of R 261,000

Included in the additions there is a work in progress of R 44,161,955 (2011:R 96,763,651)

Work-in-progress reconciliation

	2012	2011
Buildings	1,149,217	1,110,809
Community	19,604,447	15,539,171
Electricity	35,715,973	11,927,037
Roads	(18,716,720)	17,139,265
Waste Water Network	40,368,562	47,991,956
Water	(35,310,196)	3,055,413
Furniture and Fittings	1,683,399	-
	44,494,682	**96,763,651**

5. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	10,894,969	(6,473,800)	4,421,169	10,894,969	(4,966,947)	5,928,022

Reconciliation of intangible assets - 2012

	Opening balance	**Amortisation**	**Total**
Computer software	5,928,022	(1,506,853)	4,421,169

Reconciliation of intangible assets - 2011

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software	2,252,220	5,983,511	(298,195)	(2,009,514)	5,928,022

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
6. Other financial assets		
Available-for-sale		
Listed shares(Sanlam)	348,920	268,986
Held to maturity		
Investments	44,213,225	38,624,712
Total other financial assets	**44,562,145**	**38,893,698**
Non-current assets		
Available-for-sale	348,920	268,986
Held to maturity	44,213,225	38,624,712
	44,562,145	**38,893,698**

Fair value information

The Listed shares (Sanlam) were valued at 30 June 2012 at the closing price at that date.

Reconciliation of financial assets at fair value through surplus or deficit measured at level 3

Reconciliation of financial assets available for sale - 2012

	Opening balance	Gains or losses in surplus or deficit	Closing balance
Sanlam	268,986	79,934	348,920

Reconciliation of financial assets available for sale - 2011

	Opening balance	Gains or losses in surplus or deficit	Closing balance
Sanlam	223,113	45,873	268,986

Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost. Fair value information is not provided for these financial assets.

Reconciliation of other financial assets

Reconciliation of Held to Maturity financial assets 2012

	Opening balance	Gains or losses in surplus or deficit	Closing balance
Rand Merchant bank(Securities held against DBSA loan)	38,624,712	5,588,513	44,213,225

Reconciliation of Held to Maturity financial assets 2011

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Other financial assets (continued)

	Opening balance	Gains or losses in surplus or deficit	Closing balance
Rand Merchant Bank	33,742,581	4,882,131	38,624,712

Figures in Rand	2012	2011

6. Other financial assets (continued)

Available-for-sale equity investments

The carrying amount of these financial instruments is as follows:

	2012	2011
Sanlam (Pty) Ltd		
9670 interest in ordinary shares	348,920	268,986

The Listed shares (Sanlam) were valued at 30 June 2012 at the closing price at that date.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2012 and 2011, as all the financial assets were disposed of at their redemption date.

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Other financial assets (Investment) (refer note 6)	-	44,213,225	348,920	44,562,145
Other receivables from exchange transcation (refer note 10)	44,284,189	-	-	44,284,189
Consumer Debtors (refer note 11)	304,658,747	-	-	304,658,747
Money market account(Call Accounts) (refer note 12)	-	-	30,212,629	30,212,629
	348,942,936	**44,213,225**	**30,561,549**	**423,717,710**

2011

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Other financial assets (Investment) (refer note 6)	-	38,624,712	268,986	38,893,698
Other receivables from exchange transcations(refer note 10)	31,934,879	-	-	31,934,879
Consumer Debtors (refer note 11)	293,846,200	-	-	293,846,200
Money market Account(Call Account) (refer note 12)	-	-	22,863,563	22,863,563
	325,781,079	**38,624,712**	**23,132,549**	**387,538,340**

8. Employee benefit obligations

Retirement funds

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Employee benefit obligations (continued)

An actuarial valuation has been performed of the liability in respect of post-employment health care benefits to employees and retirees of Mogale City Local Municipality and to their registered dependants as at 30 June 2012. An independent valuator which is ARCH ACTURIAL CONSULTING was appointed by the municipality to do all the calculation. The Company is practicing according to the conditions and requirements of Acturial Society of South Africa.

The municipality provides retirement for its employees and councillors. The municipality contributes to defined contribution and defined benefit funds.

The actuarial valuation determined that the retirement plan was in a sound financial position, however that it was recommended that the contribution should be increased by 6% for 12 months. This recommendation is presently being implemented.

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Defined Contribution Funds

Where an employee has rendered services to the municipality during the year, the municipality recognises the contribution in exchange for the service immediately as an expense.

Defined Benefit Plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes most of which offer a range of options pertaining to the levels of cover. Upon retirement a retired employee may continue membership of the medical scheme. Upon a member's death-in-service or death -on-retirement the surviving dependants may continue membership of the scheme in-service members will, and continuation members do receive a post retirement subsidy of 60% of the contribution payable, subject to a limit of R 3,440.51 per month for 2012/2013

The defined benefit funds which are run by an independent administrator are actuarially valued on the basis of the projected unit credit method.

Post retirement medical benefit

The municipality provides post retirement medical benefit to ex-employees. These benefits are charged to the Statement of Financial Performance in the year of payment. The expected cost of these are accrued over the period of employment. Independent actuaries carry out these valuations.

The municipality offered employees and continuation member's the opportunity of belonging to one several medical aid schemes, most of which offer range of options pertaining to the level of cover. Upon retirement an employee may continue memebership of the medical aid scheme and upon a member's death-in cover or death in retirement, the surviving dependent may continue membership of the scheme.

The amounts recognised in the statement of financial position are as follows:

	2012	2011
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(102,917,753)	(92,943,084)
Non-current liabilities	(95,088,897)	(85,241,263)
Current liabilities	(7,828,856)	(7,701,821)
	(102,917,753)	**(92,943,084)**

Changes in the present value of the defined benefit obligation are as follows:

	2012	2011
Opening balance	92,943,084	81,105,305
Net expense recognised in the statement of financial performance	9,974,669	11,837,779
Closing balance	**102,917,753**	**92,943,084**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	3,553,829	3,172,675
Contributon paid(Benefits paid)	(3,701,688)	(3,531,948)
Interest cost	7,849,683	7,314,737
Actuarial losses	2,272,845	4,882,315
Total included in employee related costs	**9,974,669**	**11,837,779**

Key assumptions used

Key finacial assumptions used at the reporting date:

Discount rates used	7.78 %	8.61 %
Health care cost inflation rate	6.99 %	7.32 %
net effective discount rate	0.74 %	1.21 %

Notes to the Annual Financial Statements

8. Employee benefit obligations (continued)

The next contribution rate increases is assumed to occur at 1 January 2013

Key demographic assumptions

Assumption		Value	
Average retirement age		65 for male; 60 for females	
Continuation of membership at retirement		90%	
Proportion assumed married at retirement		90%	
Proportion of eligible current non-member employees joining the scheme by reirement		40%	
Mortality during employment		SA 85-90	
Mortality post retirement		PA90-1	
Withdrawal from service(sample annual rates)	**Age**	**Females**	**Males**
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

Sensitivity analysis
the liability at the valuation date was recalculated to show the effect of:
(i) A 1% increase and decrease in the assumed general salary inflation rate;
(ii) A one year age reduction in the assumed rates of post-retirement mortality:
(iii) A one year decrease in the assumed average retirement age; and
(iii) A 50% reduction assumed withdrawal rates.

Assumption	Change	Liability	%change
Central assumption		41.582	
General salary inflation	+1%	44.365	7%
	-1%	39.061	-6%
Average retirement age	-2 yrs	36.891	11%
	+2yrs	45.759	10%
Withdrawal rates	-50%	48.318	16%

Eligible employee demographic statistics
Summary of the eligible in services employees

	Female	Male	Total
No.in service members	256	312	568
No. in service of non-members	63	91	154
Average Age	41.2	45.4	43.6
Average past services	11.6	15.0	13.5
Average No. of dependants for inservices members	1.6	1.8	1.7

Eligible in-service non-members were assumed to be on SAMWUMED option B should they be on a medical aid scheme at retirement.

Details of continuation membership

	Female	Male	Total
Number of principal numbers	32	95	127
Average age of members	71.9	72.8	72.6
Average no. of dependants	0.2	0.5	0.4
Average employee contribution	R 2,105	R 2,681	R 2,536

Subsidy policy
In-service members are entitled to receive a post-employment subsidy of 60% of the contribution payable, subject to a limit of R 3,440.51 per month (applicable for the 2012/2013 financial year) and provided they have at least ten years of service at retirement. Current continuation members all receive a 60% subsidy and are subject to the same limit described above. Widow(er)s and orphans of eligible in-service members are entitled to receive this same subsidy for ten years after the

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Employee benefit obligations (continued)

death in-service of an employee.
Upon a member's death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy for life.
It was not possible to determine from the data which of the continuation members were dependants of deceased in-service members and who were retirees. However, there was only one continuation member who was indicated to be a widow, and it was assumed that for this continuation member, the benefit would be received until death.

The effect of health care cost inflation rate is as follows:
This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjectivet. A health care cost inflation rate of 6.99% has been assumed. This is 1.75% in excess of expected CPI inflation over the expected term of the liability, namely 5.24%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.74% which derives from (7.78%-6.99%)/1.0699.
The expected inflation assumption of 5.24% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.94%) and those of nominal bonds (7.78%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: (7.78%-0.50%-1.94%)/1.0194. The next contribution increase was assumed to occur with effect from 1 January 2013.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

9. Inventories

Consumable stores	10,225,055	13,755,893
Water	359,966	435,314
Unsold Properties Held for Resale	513,000	513,000
Substores	1,390,125	3,949,914
	12,488,146	18,654,121
Inventories (Obsolete write-downs)	(445,292)	(1,561,913)
	12,042,854	**17,092,208**

The events leading to the obsolete stock is because of the items not being used and they became redundant .

10. Other receivables from exchange transactions

Bulk services	14,010,291	14,010,291
Indigent parked amounts	22,650,706	22,741,894
Housing	13,080,643	12,990,823
Staff loans	4,553,402	4,218,292
Debtors staff leave	1,034,616	451,972
Other receivables	56,553,430	34,960,523
Impairment of other debtors	(67,598,900)	(57,438,916)
	44,284,188	**31,934,879**

Credit quality of other receivables from exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past due nor impaired, can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Other receivables from exchange transactions (continued)

Other receivables from exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 19,496,344 (2011: R 10,504,115) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	10,818,005	9,899,966
2 months past due	333,177	304,303
3 months past due	8,345,162	299,847
Total	19,496,344	10,504,115

Other receivables from exchange transactions impaired

As of 30 June 2012, other receivables from non-exchange transactions of R 111,927,026 (2011: R89,373,795) were impaired and provided for.

The amount of the provision was R 67,598,900 as of 30 June 2012 (2011: R 57,438,916).

The ageing of these other debtors is as follows:

3 to 6 months	11,164,497	10,500,823
Over 6 months	100,762,529	78,872,972

Reconciliation of provision for impairment of other receivables from exchange transactions

Opening balance	57,438,916	54,857,323
Provision for impairment	10,159,984	2,581,593
	67,598,900	**57,438,916**

11. Consumer debtors

Gross balances		
Rates	211,066,743	206,223,298
Electricity	104,223,615	86,692,792
Water	123,693,428	117,997,113
Sewerage	99,910,761	91,069,632
Refuse	149,496,976	140,820,065
Other	169,235,417	160,328,894
Credit Balances transferred to creditors	39,907,260	31,597,415
	897,534,200	**834,729,209**

Less: Provision for debt impairment		
Rates	(179,531,217)	(148,649,360)
Electricity	(26,504,821)	(19,117,558)
Water	(96,005,167)	(91,289,734)
Sewerage	(77,895,923)	(74,555,830)
Refuse	(125,716,671)	(124,922,263)
Other	(87,221,655)	(82,348,264)
	(592,875,454)	**(540,883,009)**

Net balance		
Rates	31,535,526	57,573,938
Electricity	77,718,794	67,575,234

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Consumer debtors (continued)

Water	27,688,261	26,707,379
Sewerage	22,014,838	16,513,802
Refuse	23,780,305	15,897,802
Other	82,013,762	77,980,630
Credit Balances transferred to creditors	39,907,260	31,597,415
	304,658,746	**293,846,200**

Rates

Current (0 -30 days)	76,666,370	71,866,152
31 - 60 days	5,932,292	4,455,640
61 - 90 days	3,360,493	3,580,352
91 - 120 days	125,107,588	126,321,154
	211,066,743	**206,223,298**

Electricity

Current (0 -30 days)	69,516,643	58,364,439
31 - 60 days	6,834,184	8,096,061
61 - 90 days	2,859,223	1,653,065
91 - 120 days	25,013,565	18,579,227
	104,223,615	**86,692,792**

Water

Current (0 -30 days)	21,449,201	20,461,891
31 - 60 days	6,920,457	6,352,166
61 - 90 days	3,931,042	2,434,004
91 - 120 days	91,392,728	88,749,052
	123,693,428	**117,997,113**

Sewerage

Current (0 -30 days)	25,051,554	11,430,018
31 - 60 days	2,901,103	4,049,283
61 - 90 days	1,035,159	1,901,275
91 - 120 days	70,922,945	73,689,056
	99,910,761	**91,069,632**

Refuse

Current (0 -30 days)	25,856,995	10,817,883
31 - 60 days	2,271,025	3,396,767
61 - 90 days	1,416,676	2,223,218
91 - 120 days	119,952,280	124,382,197
	149,496,976	**140,820,065**

Credit Balances transferred to creditors

Current (0 -30 days)	5,005,444	5,134,145
31 - 60 days	1,955,435	3,095,460
61 - 90 days	1,111,601	1,054,243
91 - 120 days	31,834,780	22,313,567
	39,907,260	**31,597,415**

Other

Current (0 -30 days)	50,917,783	29,596,329
31 - 60 days	25,616,527	5,887,267

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Consumer debtors (continued)

61 - 90 days	22,514,815	4,079,866
91 - 120 days	70,184,152	120,765,432
	169,233,277	**160,328,894**

Reconciliation of debt impairment provision of all debtors including other receivables from exchange transcations and Non current receivables

Balance at beginning of the year	601,508,953	567,670,793
Contributions to provision	82,208,112	48,032,071
Debt impairment written off against provision	(20,664,873)	(14,193,911)
	663,052,192	**601,508,953**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past, due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 224,334,091 (2011: R 216,378,737) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	211,678,691	172,051,993
2 months past due	6,786,214	25,004,288
3 months past due	5,869,186	19,322,456

Consumer debtors impaired

As of 30 June 2012, consumer debtors of R 897,532,060 (2011: R 834,729,209) were impaired and provided for.

The amount of the provision was R 592,875,454 as of 30 June 2012 (2011: R 540,883,009).

The ageing of these debtors are as follows:

Over 6 months	592,875,454	540,883,009

Reconciliation of provision for impairment of consumer debtors

Opening balance	540,883,009	509,424,711
Provision for impairment	72,048,127	45,450,479
Amounts written off as uncollectible	(20,055,682)	(13,992,181)
	592,875,454	**540,883,009**

Receivables from non-exchange transactions included in Consumer debtors

Rates	31,535,526	57,573,938

Receivables from exchange transactions included in Consumer debtors

Electricity	77,718,794	67,575,234
Water	27,688,261	26,707,379
Sewerage	22,014,838	16,513,802
Refuse	23,780,305	15,897,802
Other	82,013,762	77,980,630
	233,215,960	**204,674,847**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	28,667	25,226
Bank balances	13,533,992	17,017,475
Call accounts money market accounts	30,212,629	22,863,563
Bank overdraft	-	(570,602)
	43,775,288	**39,335,662**

Current assets	43,775,288	39,906,264
Current liabilities	-	(570,602)
	43,775,288	**39,335,662**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral [This collateral are held by Eskom Holdings Limited and South African Post Office]	500,000	361,800

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Cash and cash equivalents (continued)

2012
Gurantee no. G0657/396345/GLO: First Rand Bank Limited has been binded as gurantor to South African Post Office for payments of all amounts due and payable, or which may become due and payable by the municipality in respect of bulk postings provided that the total amount to be recovered under this payment Guarantee shall not exceed in agregate the sum of R 500,000

2011
Gurantee no. G0657/350385/GLO: First Rand Bank Limited has been binded as gurantor to Eskom Holdings Limited for the due payments of all amounts due and payable, or which may become due and payable by the municipality to eskom in terms of the eletricity supply agreement entered into between Eskom and the customer for the supply of electricity to porion 39, Kagiso (Waterboard) provided that the total amount to be recovered from Guarantor shall not exceed the sum of R 21,800.

Gurantee no. G0657/350386/GLO: First Rand Bank Limited has been binded as gurantor to Eskom Holdings Limited for the due payments of all amounts due and payable, or which may become due and payable by the municipality to eskom in terms of the eletricity supply agreement entered into between Eskom and the customer for the supply of electricity to porion 96, Kagiso (Hostel 1, Transfomer 1) provided that the total amount to be recovered from Guarantor shall not exceed the sum of R 43,100.

Gurantee no. G0657/350387/GLO: First Rand Bank Limited has been binded as gurantor to Eskom Holdings Limited for the due payments of all amounts due and payable, or which may become due and payable by the municipality to eskom in terms of the eletricity supply agreement entered into between Eskom and the customer for the supply of electricity to porion 96, Kagiso (Hostel 1, Transformer 2) provided that the total amount to be recovered from Guarantor shall not exceed the sum of R 43,100.

Gurantee no. G0657/350391/GLO: First Rand Bank Limited has been binded as gurantor to Eskom Holdings Limited for the due payments of all amounts due and payable, or which may become due and payable by the municipality to eskom in terms of the eletricity supply agreement entered into between Eskom and the customer for the supply of electricity to porion 96, Kagiso (Hostel 1, Transformer 3) provided that the total amount to be recovered from Guarantor shall not exceed the sum of R 53,800.

Gurantee no. G0657/396345/GLO: First Rand Bank Limited has been binded as gurantor to South African Post Office for payments of all amounts due and payable, or which may become due and payable by the municipality in respect of bulk postings provided that the total amount to be recovered under this payment Guarantee shall not exceed in agregate the sum of R 200,000

	2012	2011
Total financial assets pledged as collateral for contingent liabilities	500,000	361,800

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
First National Bank - Corporate Services Account - 6204-542-3491	-	(2,215)	-	-	(2,215)	-
First National Bank - Corporate Services Account - 6204-542-2469	-	100,000	-	-	100,000	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Cash and cash equivalents (continued)

First National Bank- Coporate Services Account - 6204-523-1074	-	6,721,924	-	-	6,721,924	-
First National Bank - Coporate Services Account - 6208-172-0114	-	50,000	-	-	50,000	-
First National Bank- Corporate Services Account-6212-767-4358	-	(205)	-	-	(205)	-
First National Bank-Corporate Services Account-Social reponsibility	-	(205)	-	-	(205)	-
First National Bank-Corporate Service Account-6228-265-1621	-	116,024	-	-	116,024	-
Standard Bank- 021307482	582,820	90,425	-	582,820	90,425	-
Standard Bank-021307474 Cheque Accounts	72,671	1,084,935	-	72,671	1,084,935	-
Standard Bank- 021307385 Cheque Accounts	36,083	515,805	-	36,083	515,805	-
Standard Bank- 021307172 Cheque Accounts	900,965	1,284,594	-	900,965	1,284,594	-
Standard Bank- 021307105 Cheque Accounts	9,055,603	(567,977)	-	9,055,603	(567,977)	-
Standard Bank-021306958 Cheque Accounts	71,443	3,079,783	-	71,443	3,079,783	-
Standard Bank-021306532 Cheque Accounts	2,814,406	3,973,804	-	2,814,406	3,973,804	-
Call Account	30,212,629	22,863,564	-	30,212,629	22,863,564	-
Petty Cash	28,668	25,226	-	28,668	25,226	-
Absa 40-6870-7232	-	180	-	-	180	-
Total	**43,775,288**	**39,335,662**	**-**	**43,775,288**	**39,335,662**	**-**

13. Non-current receivables

	2012	2011
Sundry loans	2,241,803	2,706,945
Receivables credit balances transferred(creditors)	1,343	-
Stand and housing loans capital	334,692	480,084
Impairment receivables	(2,577,838)	(3,187,029)
	-	-

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Non-current receivables impaired

As of 30 June 2012, trade and other receivables of R 2,577,838 (2011: R 3,187,029) were impaired and provided for.

The amount of the provision was R 2,577,838 as of 30 June 2012 (2011: R3,187,029).

The ageing of these loans is as follows:

	2012	2011
Over 6 months	2,577,838	3,187,029

Reconciliation of provision for impairment of non-current receivables

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Non-current receivables (continued)

Opening balance	3,187,029	3,388,759
Rervesal of provision(Written off as uncollectable)	(609,191)	(201,730)
	2,577,838	**3,187,029**

14. Finance lease obligation

Minimum lease payments due		
- within one year	15,658,558	8,047,080
- in second to fifth year inclusive	14,164,246	13,300,489
- later than five years	2,424,087	2,489,198
	32,246,891	23,836,767
less: future finance charges	(11,010,277)	(9,496,569)
Present value of minimum lease payments	**21,236,614**	**14,340,198**

Present value of minimum lease payments due		
- within one year	9,139,559	3,847,688
- in second to fifth year inclusive	11,308,824	9,742,772
- later than five years	788,231	749,738
	21,236,614	**14,340,198**

Non-current liabilities	12,020,871	10,492,509
Current liabilities	9,215,743	3,847,688
	21,236,614	**14,340,197**

It is municipality policy to lease certain property,motor vehicles and equipment under finance leases.

The average lease term is 36 months.

Interest rates are either fixed or variable. Some leases have fixed repayment terms and others escalate on a fixed rate and some fluctuate with prime lending rate.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department of Housing	2,295,011	2,295,011
SRAC grant	800,317	548,613
DWAF grant	1,531,290	2,428,642
GDSD grants	1,172,407	3,332,784
WRDM grants	3,524,235	1,396,683
BKB grants	571,534	285,956
Expanded public works programme	893,123	124,000
Seta training grants	886,184	25,858
GPR-DLG:ALOE CAP	2,200,000	-
	13,874,101	**10,437,547**

Movement during the year

Balance at the beginning of the year	10,437,547	12,133,569
Additions during the year	296,109,260	266,876,103
Income recognition during the year	(292,672,706)	(268,572,125)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
15. Unspent conditional grants and receipts (continued)		
	13,874,101	**10,437,547**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

16. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Landfill site rehabilitation	14,682,580	-	-	(439,826)	14,242,754
Gratuity Provision	1,615,442	-	(219,353)	-	1,396,089
Corporate and social responsibility	1,390,374	2,203,473	-	-	3,593,847
Collateral guarantee insurance	346,107	-	(77)	-	346,030
Long services awards & Workmans compensation	40,388,923	6,607,796	-	-	46,996,719
	58,423,426	**8,811,269**	**(219,430)**	**(439,826)**	**66,575,439**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Landfill site rehabilitation	13,347,800	-	-	-	1,334,780	14,682,580
Gratuity provision	1,646,656	-	(31,214)	-	-	1,615,442
Corporate and social responsibility	278,264	1,301,610	(189,500)	-	-	1,390,374
Collateral guarantee insurance	334,892	11,215	-	-	-	346,107
Longservices awards & Workmans compensation	36,299,868	11,605,824	-	(7,516,769)	-	40,388,923
	51,907,480	**12,918,649**	**(220,714)**	**(7,516,769)**	**1,334,780**	**58,423,426**

	2012	2011
Non-current liabilities	52,428,724	46,793,432
Current liabilities	14,146,715	11,629,994
	66,575,439	**58,423,426**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

16. Provisions (continued)

a. Corporate Social Responsiblity Funds
The fund was established in terms of executive resolution by the Mayor in terms of which service providers and suppliers who reside outside of Mogale City Local Municipality boundries are expected to contribute 1% out of all amounts that accrue when they tender the municipality

b. Gratuity Provision
The fund was established in terms of an executive resolution 30/06/86. The policy to non whites stipulated that any worker over 65yrs and has worked for the municipality for a period of 10 years and did not recieve any pension compensation upon retirement. Gratuity has been paid at a 1/12 of the monthly salary for every completed years of service.

c. Leave and Bonus accrual
The liability is based on the total accrued leave days and accrued bonus paid.

d. Landfill Rehabilitation Provision
In terms of GRAP19 evaluations of provision should be done on an annual basis to reflect the best estimate at that date of provision.

e. Collateral Gaurantee Insurance
MCLM has housing guarantees with the bank on behalf of its employees. These employees contribute on a monthly basis to cover for the municipality possible losses.

f.Long Service Awards Provision

Summary of elegible employees
Summary of employees who are elegible for LSA as at June 2012

	Female	**Male**	**Total**
Number of employees	567	1,018	1,585
Average annual salary	248,488	226,466	234,344
Salary weighted average	41.4	46.2	13.4
Salary weighted average past services	10.3	15.3	13.4

Long services leave arrangements
The municipality offers employees LSA for every five years completed, from ten years of services onwards

Long service awards for levels of past services

Completed in service(in YRS)	**Long service bonus(% annual package)**	**Description**
10	6.4%	16/250* annual package
15	8.0%	20/250* annual package
20,25,30,35,40,45	12.0%	30/250* annual package

Key financial assumptions
The municipality offers various types of long service awards to its employees and the key acturial financial assumptions are as follows

- Discount rate 6.38% (2011: 7.71%)

16. Provisions (continued)

- General salary inflation 5.97% (2011: 6.25%)
  Net effective discount rate 0.38% (2011: 1.38 %)
  The salaries used in the valuation include an assumed increase of 6.5% in July 2012. The next salary increase is assumed to take place in July 2013.

Key demographic Assumptions

Assumption	Value		
Average retirement age	65 for males;60 for females		
Mortality during employement	SA85-90		
Withdrawal from service (sample annual rates)	**Age**	**Rate**	
		Female	**Male**
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	0%	0%

Sensitivity analysis
the liability at the valuation date was recalculated to show the effect of:
(i) A 1% increase and decrease in the assumed general salary inflation rate;
(ii) A two year decrease and increase in the assumed average retirement age of employees
(iii) A 50% decrease in the assumed withdrawal rates from services

Assumption	**Change**	**Liability**	**%change**
Central assumption		41.582	
General salary inflation	+1%	44.365	7%
	-1%	39.061	-6%
Average retirement age	-2 yrs	36.891	-11%
	+2yrs	45.759	10%
Withdrawal rates	-50%	48.318	16%

17. Trade and other payables from exchange transactions

	2012	2011
Trade payables	193,717,583	175,131,654
Credit balance from other debtors	1,876,672	1,200,152
Current lease liability	-	280,197
Other payables	3,724,713	6,322,500
Salary third payments	588,304	395,886
Unpresented cheques	15,524,200	15,060,340
Creditors fair value adjustments	(1,454,498)	(1,345,929)
Consumer debtors credit balances	39,907,260	31,597,415
Receivables credit balances	1,343	1,067
Inventory in transit	131,107	131,483
Insurance claims	-	281,297
Unallocated cash	964,156	964,861
Undistributed deposit	15,546,004	6,765,248
Retention	17,895,298	10,648,281
Overtime Accrual	1,238,166	1,881,175
Leave accrual	36,392,601	34,908,962
Bonus accrual	15,850,259	13,655,972
	341,903,168	**297,880,561**

It is anticipated that the amounts owing to trade and other payables will be settled within the next 12 months.

18. Other financial liabilities

Held at amortised cost

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Other financial liabilities (continued)

Bank loan(Non Current)	177,131,998	194,539,357
Bank loan(Current)	17,961,031	11,158,838
	195,093,029	**205,698,195**

Loans: The loans bear interests between 10% and 16.2% per annum and repayable over a period between 1 yr and 20 yrs.

Non-current liabilities		
At amortised cost	177,131,998	194,539,357
Current liabilities		
At amortised cost	17,961,031	11,158,838
	195,093,029	**205,698,195**

19. Sundry deposits

Services deposits	8,551,654	7,593,896

Sundry deposits consists of hall, kerb, builder's water and key deposits.

20. VAT payable (SARS)

VAT payables	68,632,136	63,845,298

VAT is payable on the receipt basis and is only paid over to SARS only once payment is received from debtors

21. Consumer deposits

Electricity and water	35,997,439	33,294,313

The above deposist represent Electricity & Water deposists as the current tariff structure do not permit individual deposit verification

22. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below: The liabilities are disclosed and presented at amortised costs however the value equals the fair value measurements

2012

	Financial liabilities at amortised cost	**Total**
VAT payable(refer note 20)	68,670,528	68,670,528
Other current financial liabilities(refer note 18)	17,961,031	17,961,031
Trade and other payables(refer note 17)	341,907,241	341,907,241
Other non current financial liabilities(refer note18)	177,131,998	177,131,998
Consumer deposits(refer note 21)	35,997,439	35,997,439
Sundry deposits(refer note 19)	8,551,654	8,551,654
Unspent conditional grants and receipts(refer note 15)	13,874,101	13,874,101
	664,093,992	**664,093,992**

2011

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Financial liabilities by category (continued)

	Financial liabilities at amortised cost	Total
Bank overdraft(refer note 12)	570,602	570,602
VAT payable(refer note 20)	63,845,298	63,845,298
Other current financial liabilities(refer note 18)	11,158,838	11,158,838
Trade and other payables(refer note17)	297,880,562	297,880,562
Other non current financial liabilities(refer note 18)	194,166,746	194,166,746
Consumer deposits(refer note 21)	33,294,313	33,294,313
Sundry deposits(refer note 19)	63,845,298	63,845,298
Unspent conditional grants and receipts (refer note 15)	11,629,994	11,629,994
	676,391,651	**676,391,651**

23. Revenue

Property rates	247,752,947	217,375,414
Property rates – Penalties imposed and collection charges	11,724,620	12,225,618
Service charges	951,363,075	790,204,861
Rental of facilities & equipment	3,148,630	7,738,915
Interest received – trading	10,202,152	7,547,349
Income from agency services	19,075,486	15,926,124
Fines	11,035,560	13,159,396
Licences and permits	23,129	30,891
Government grants & subsidies	292,672,706	268,572,124
Other income	222,579,398	77,192,837
	1,769,577,703	**1,409,973,529**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	951,363,075	790,204,861
Rental of facilities & equipment	3,148,630	7,738,915
Interest received – trading	10,202,152	7,547,349
Income from agency services	19,075,486	15,926,124
Licences and permits	23,129	30,891
Other income	222,579,398	77,192,837
	1,206,391,870	**898,640,977**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	247,752,947	217,375,414
Property rates – Penalties imposed and collection charges	11,724,620	12,225,618
Fines	11,035,560	13,159,396
Transfer revenue		
Levies	292,672,706	268,572,124
	563,185,833	**511,332,552**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Property rates

Rates received

Residential	261,088,051	225,262,507
Commercial	115,101,188	109,890,731
Small holdings and farms	16,433,532	13,181,394
Less: Income forgone	(144,869,824)	(130,959,218)
	247,752,947	217,375,414
Property rates - penalties imposed and collection charges	11,724,620	12,225,618
	259,477,567	**229,601,032**

25. Service charges

Service charges	20,990,204	17,955,211
Sale of electricity	619,676,357	506,842,585
Sale of water	148,393,005	130,031,552
Sewerage and sanitation charges	85,741,066	73,858,560
Refuse removal	76,556,264	61,516,300
Other service charges	6,179	653
	951,363,075	**790,204,861**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Government grants and subsidies

Equitable share	186,224,000	173,321,138
Provincial health subsidies	-	3,437,750
MIG grant	75,065,345	60,986,980
Financial management grant	1,250,000	1,000,000
WRDM grant	1,787,806	3,127,284
Bontle ke botho grant	194,423	49,320
Seta training grant	1,759,229	1,552,215
SRAC grant	5,148,295	4,942,335
Municipal systems improvement grant (operating)	800,000	750,000
GDSD grant	17,160,378	5,674,777
GPR-HIV/AIDS grant	-	268,479
DWAF	2,897,353	7,440,846
DMEA grant	-	5,000,000
Expanded public works programme	385,877	21,000
Agriculture	-	1,000,000
	292,672,706	**268,572,124**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 226.85 (2011: R -), which is funded from the grant.

MIG grant

Balance unspent at beginning of year	-	3,869,327
Current-year receipts	75,065,345	57,117,653
Conditions met - transferred to revenue	(75,065,345)	(60,986,980)
	-	**-**

Conditions still to be met - remain liabilities (see note 15)

The grant is used for all infrastructure projects in Mogale City.

Department of human settlement grant

Balance unspent at beginning of year	2,295,011	2,295,011

Conditions still to be met - remain liabilities (see note 15)

This grant is administered on behalf of the department of human settlement for the erection of RDP houses.

SRAC grant

Balance unspent at beginning of year	548,613	1,190,948
Current-year receipts	5,399,999	4,300,000
Conditions met - transferred to revenue	(5,148,295)	(4,942,335)
	800,317	**548,613**

Conditions still to be met - remain liabilities (see note 15)

The grant is utilised for the libraries and sports facilities around Mogale City.

DWAF

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Government grants and subsidies (continued)

Balance unspent at beginning of year	2,428,642	4,128,499
Current-year receipts	2,000,001	5,740,989
Conditions met - transferred to revenue	(2,897,353)	(7,440,846)
	1,531,290	**2,428,642**

Conditions still to be met - remain liabilities (see note 15)

The grant is used to refurbish the water care works in Mogale City and demand water management strategy.

GDSD grant

Balance unspent at beginning of year	3,332,784	7,561
Current-year receipts	15,000,001	9,000,000
Conditions met - transferred to revenue	(17,160,378)	(5,674,777)
	1,172,407	**3,332,784**

Conditions still to be met - remain liabilities (see note 15)

The grant is used for the construction of the early childhood development.

WRDM grant

Balance unspent at beginning of year	1,396,683	88,467
Current-year receipts	3,915,358	4,435,500
Conditions met - transferred to revenue	(1,787,806)	(3,127,284)
	3,524,235	**1,396,683**

Conditions still to be met - remain liabilities (see note 15)

WRDM funds various activities in the municipality e.g. HIV/AIDS, primary health care, programmes for the youth, elderly, disabled etc.

Bontle ke botho grant

Balance unspent at beginning of year	285,956	285,277
Current-year receipts	480,001	49,999
Conditions met - transferred to revenue	(194,423)	(49,320)
	571,534	**285,956**

Conditions still to be met - remain liabilities (see note 15)

Bontle ke botho is prize money received for the greater Krugersdorp town and various wards for environmental awareness and will be spent in the following year.

GPR-HIV/AIDS grant

Balance unspent at beginning of year	-	268,479
Conditions met - transferred to revenue	-	(268,479)
	-	**-**

Conditions still to be met - remain liabilities (see note 15)

The grant is used for all related matters pertaining to HIV/AIDS projects.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Government grants and subsidies (continued)

Expanded public works programme

Balance unspent at beginning of year	124,000	-
Current-year receipts	1,155,000	145,000
Conditions met - transferred to revenue	(385,877)	(21,000)
	893,123	**124,000**

Conditions still to be met - remain liabilities (see note 15)

As per the national government initiative this grant is utilised for labour intensive program.

Seta training grants

Balance unspent at beginning of year	25,858	-
Current-year receipts	2,619,555	1,578,073
Conditions met - transferred to revenue	(1,759,229)	(1,552,215)
	886,184	**25,858**

Conditions still to be met - remain liabilities (see note 15)

The grant is utilised to enhance skills for all employees of the municipality.

Department of local government: Aloe Cap

Current-year receipts	2,200,000	-

Conditions still to be met - remain liabilities (see note 15)

The grant will be utilised for revenue enhancement projects

27. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	3,148,630	7,738,915

28. Investment revenue

Dividend received		
Dividends	12,688	11,224
Interest received- external investment		
Bank	8,189,973	7,443,563
Total revenue from investments	**8,202,661**	**7,454,787**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Other income

Administration fees	384,005	363,805
Advertising	362,012	255,514
Application fees	371,195	327,472
Building plan fees	1,857,190	1,866,541
Bulk service connections	3,702,959	4,613,984
Cemetery fees	1,717,677	1,873,447
Contributions roads, storm water pipes	6,898,693	1,671,692
Insurance claims	1,057,468	549,872
Medical aid contributions(Pensioners)	1,366,212	1,349,744
Other income	3,731,468	3,552,061
Sale of assets	28,274,757	(105,456)
Services connections	5,007,466	5,232,293
Unclaimed monies	6,506	6,080
Investment property fair value adjustment	(22,002,231)	55,635,788
Donation/ Transfers of Assets	189,844,021	-
	222,579,398	**77,192,837**

Other income increased as a result of the donations/ transfers of assets to the municipality and the treatment has been done according to GRAP 23:

Transferers of Cradle of Humankind assets were as a result of demarcation of District Management Areas to Mogale City to the value of R 18,314,565
Acquisition of capital Spares to the value of R7,732,388
Lanwen hostel donated to Mogale City to the value of R 36,852,981
Krugersdorp Game Reserve buildings was transferred to Mogale City at a value of R 89,002,061.
Krugersdorp Game Reserve animals was transferred to Mogale City at a value of R 3,847,093.
Buildings to the value of R 1, 000,000 was donated to Mogale City by the South African breweries.
Kagiso hostel was converted to family units at a value of R 33,094,933
Biological assets transferred to Mogale City at a value of R3,395,876
Krugersdorp Game Reserve moveable assets transferred to Mogale City at a value of R 190,217
Krugersdorp Game Reserve animals PPE transferred to Mogale City at a value of R 261,000

The future economic benefits or service potential will flow to Mogale City due to income derived from gate takings, rental of facilities for events and accomodation.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

30. Employee related costs

Basic	252,867,254	234,229,491
Bonus	19,316,159	18,416,119
Medical aid - company contributions	13,435,464	10,715,472
UIF	2,041,177	1,971,577
SDL	80,573	79,318
Post-employment benefits - Pension - Defined contribution plan	46,968,840	43,361,950
Overtime payments	16,705,917	22,883,619
Long-service awards	148,565	216,761
Acting allowances	9,141	59,463
Car allowance	33,365,752	29,922,951
Housing benefits and allowances	1,773,200	1,699,210
Section 57 Salaries	10,355,461	9,714,777
	397,067,503	**373,270,708**

Remuneration of municipal manager(Mashitisho D.M)

Annual Remuneration	1,433,960	1,038,471
Car Allowance	144,000	144,000
Performance Bonuses	113,393	176,388
Contributions to UIF, Medical and Pension Funds	85,203	78,945
Subsistance allowance	-	14,058
	1,776,556	**1,451,862**

Remuneration of chief finance officer(Mahuma L.M.E)

Annual Remuneration	975,216	785,221
Car Allowance	240,000	240,000
Performance Bonuses	111,993	-
Contributions to UIF, Medical and Pension Funds	102,992	96,207
Subsistance allowance	-	12,543
Acting allowance	-	5,062
	1,430,201	**1,139,033**

Chief Operating Officer(Mbulawa A.)

Annual Remuneration	662,096	967,275
Car Allowance	34,000	72,000
Performance Bonuses	78,395	80,606
Contributions to UIF, Medical and Pension Funds	9,939	1,547
	784,430	**1,121,428**

Remuration of executive managers(Mokotedi D, Thelejane M, Mokoena M, Mokebe R, Mathebula S, Seopasengwe B)

Annual Remuneration	4,742,207	4,772,627
Car Allowance	757,660	735,000
Performance Bonuses	619,866	-
Contributions to UIF, Medical and Pension Funds	367,355	438,629
Annual bonus	-	56,198
	6,487,088	**6,002,454**

Salaries, allowance and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

31. Remuneration of councillors

Executive Mayor	713,667	679,052
Mayoral Committee Members	5,457,472	5,297,880
Speaker	532,611	502,549
Councillors	6,596,053	5,875,825
Councillors' pension contribution	4,654,405	3,957,768
	17,954,208	**16,313,074**

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has two full-time bodyguards.

32. Depreciation and amortisation

Intangible assets	1,506,853	2,009,514
Property, plant and equipment	206,865,443	220,968,616
	208,372,296	**222,978,130**

33. Impairment of assets

Impairments		
Property, plant and equipment	6,556,586	4,738,270

The main classes of assets affected by impairment losses are:

Buildings: The buildings is not being used for its intended purpose as some of the halls are being used for residential purposes, private dwellings built on the wrong site and vandalised buliding on plot 265.

Electricity: Theft of of substations in various parts of the municipality

Community Assets: Squater invation in parks around Mogale City.

Roads: Road base failure in Feartherbrooke and some roads in Mogale City which are not being used.

Water and sanitation: theft and vandalism at boiketlo pump station and some of sewer reticulation not being used.

Investment Property: Squatter invasion on stand 489, Nooitgedacht

34. Finance costs

Bank	45,285,417	33,209,415

Interest paid is mainly made up of long term borrowings from the Development Bank of Southern Africa, ABSA, INCA, Wesbank and interest costs for Post employement medical benefits and long services awards.

35. Contracted services

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

35. Contracted services (continued)

Information Technology Services	17,222,853	18,778,943
Fleet Services	24,306,928	25,534,486
Operating Leases	31,509,006	21,688,837
Specialist Services	3,134,333	3,163,414
Other Contractors	70,886,621	53,319,264
	147,059,741	**122,484,944**

36. Grants and subsidies paid

Other subsidies

Grants other	369,508	270,481
Basic services	18,916,036	5,561,673
Grants: in aid	531,966	520,392
Grants discretionary	75,668	131,903
	19,893,178	**6,484,449**

37. Bulk purchases

Electricity	405,596,024	322,950,030
Water	132,698,110	114,950,821
Sewer purification	2,640,827	2,496,606
	540,934,961	**440,397,457**

During the year under consideration MCLM had unaccounted water and electricity of 31%, kl 10,491,085.34 (36%: 2011, kl 10,659,988) and 5.87% kwh 42,710,274 (6.93 %: 2011, kwh 51,768,281) respectively. The total rand value of these losses were R 47,314,794 (R 49,194,405 : 2011) and R25,252,558 (R 27,573,207 : 2011) respectivley.

The apparent losses for water is 5% (R 7,097,219.23)

38. Debt impairment

Contributions to debt impairment provision	82,208,112	48,032,071

Contribution to debt impairment provision is the movement of all debtors that are to be provided for. Refer note 11 for reconcialiation.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. General expenses

Advertising	1,014,755	688,981
Assessment rates & municipal charges	26,416,489	13,638,213
Audit committe remuneration	144,885	282,225
Bank charges	1,772,889	1,934,363
Internet fees	541,025	413,601
Settlement and legal fees	7,607,322	7,746,619
Consumables	400,538	321,352
Entertainment	125,405	241,448
Fines and penalties	-	3,587
Gifts	7,181	17,601
Insurance	1,211,990	2,475,015
Bursary scheme/External	889,000	698,000
Conferences and seminars	119,900	369,691
Fleet	85,769	427,950
Horticulture	1,658,269	1,760,583
Magazines, books and periodicals	382,055	542,481
Medical expenses	-	23,082
Pest control	32,037	17,486
Fuel and oil	12,599,311	10,952,529
Postage and courier	3,195,623	2,462,969
Printing and stationery	2,533,363	2,728,347
Protective clothing	168,735	227,552
Special Projects	6,819,527	13,904,083
License fees	6,078,496	2,108,958
Refreshments general & meetings	502,701	628,104
Subscriptions and membership fees	2,975,514	2,177,898
Telephone and fax	14,972,197	15,064,290
Transport pool vehicles	332,507	291,450
Training	1,633,578	1,450,835
Travel - local	1,077,845	1,223,472
Travel - overseas	75,110	95,141
Purchases for consumption	3,892,642	3,113,799
Skills levy	3,226,463	3,032,756
Contribution leave provision	900,995	9,633,212
Other expenses	55,532,369	29,350,002
	158,926,485	**130,047,675**

40. Cash generated from operations

Surplus (deficit)	64,507,809	(84,799,991)
Adjustments for:		
Depreciation and amortisation	208,355,759	222,978,130
Impairment deficit	6,556,586	4,738,270
Debt impairment	82,208,112	48,032,071
Movements in operating lease assets and accruals	574,429	(361,893)
Movements in retirement benefit assets and liabilities	9,974,669	11,837,779
Movements in provisions	8,152,013	17,949,552
Actuarial gains/losses	6,210,845	7,972,453
Other non-cash items	15,791,387	(131,838,794)
Movement on Finance lease	6,896,417	13,581,485
Changes in working capital:		
Inventories	5,049,354	136,510,684
Other receivables from exchange transactions	(12,349,309)	2,136,171
Consumer debtors	(93,020,658)	(109,150,025)
Trade and other payables from exchange transactions	44,022,611	17,855,817
VAT	4,786,868	(404,629)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

40. Cash generated from operations (continued)

Unspent conditional grants and receipts	3,436,554	178,168
Consumer deposits	2,703,126	447,998
	363,856,572	**157,663,246**

41. Commitments

Authorised capital expenditure

Already contracted for		
• Infrastructure	792,694	4,666,596
• Community	1,172,406	6,454,137
• Heritage	-	418,415
• Other	59,263	5,857,230
	2,024,363	**17,396,378**

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	32,316,825	44,482,881
- in second to fifth year inclusive	37,618,621	41,301,390
	69,935,446	**85,784,271**

The total future minimum sublease payment expected to be received under non-cancellable sublease	48,055,770	51,390,325

Operating lease payments represent rentals payable by the municipality for certain of its office, trucks, motor vehicles, cellphones and 3G cards and photocopy machine. Leases are negotiated for an average term of 36-120 months.Most of the rentals in terms of these operating lease arrangements are fixed while some rentals escalate on average by 10% or prime . No restrictions have been imposed on the municipality in terms of the operating lease agreements. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	1,088,619	760,298
- in second to fifth year inclusive	2,749,377	1,571,511
- later than five years	391,880	572,739
	4,229,876	**2,904,548**

Certain of the municipality's property is held to generate rental income. Lease agreements have terms from 6 to 25 years. the rental escalates at 10% on average. There are no contingent rents receivable.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

42. Contingencies Liabilities

Outstanding legal matters
Catergory A

	2012	2011
Motheo Group Suing MCLM for damages suffered as a result of cancellation of contract.	1,600,000	1,600,000
Enviro-fill (Pty) ltd Claim for damages suffered subsequent to cancellation of contract.	0	2,500,000
Special Occasions Claims for damages suffered after cancellation of contract without notification.	0	62,000
Mathe Contsruction Suing MCLM for damages suffered as a result of cancellation of contract/ low cost housing.	5,500,000	5,500,000
David Temple Nourse Deed of sale (purchased land) from red coral, red coral signed a LAA with municipality and has failed to complete development .	0	290,000
Charles Deuces Claims for damages to vehicles as a result of unrehabilated roads.	0	25,000
Charles Deuces Reimbursement of rates and taxes due to over charging by MCLM.	0	80,000
T. Chauke	150,000	150,000
P.Gouws Alleges that they were unlawfully assulted and detained by the traffic officer of council	0	100,000
Lektratek (Pty) Ltd Alleges serious flaws with the awarding of tender and that it should have been awrded to him	5,000,000	0
V. Venter Traffic vehicle of municipality collided with the plainteff's vehicle and he is claimimg for damages	22,000	0
Chabano Trading Consultant The plaintiff alleges that the municipality has unlawfully terminated the contract	1,167,770	0
Red Ants The plaintiff alleges that they have rendered services for cleaning the city and they have not been paid as at year end.	569,000	0
Albert Stanford Plaintiff claims for injury caused when he fell in a storm water drainange	2,000,000	
Thembi Sheila Hlwatswayo Loss of income as result of husband's death caused by tree that fell on her husband motor vehicle.	800,000	
Subtotal	**16,808,770**	**10,307,000**

Category B

Labour matters

	2012	2011
M. Motale Appeal of disciplinary case against.	70,000	0

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
42. Contingencies Liabilities (continued)		
N. Mopitsing	30,000	300,000
Salary disparity, unfair dismissal and unfair practices		
Murray & Ors	3,000,000	3,000,000
Salary disputes- employees alleges that they were not paid on the notch that the were suppose to be paid.		
A. Masonganye	300,000	300,000
L. Tshoane	300,000	300,000
Unfair dismissal.		
J. Mathye	300,000	300,000
N. Mabunda	300,000	300,000
J. Nkhumane	300,000	300,000
Unfair dismissal.		
S. Kuane	74,000	74,000
Remuneration.		
Subtotal	**4,674,000**	**4,874,000**
Total	**21,482,770**	**15,181,000**

43. Related parties

Relationships

Accounting Officers	Mr D.M Mashitisho
Members of key management	Mr L.M.E Mahuma
	Ms S. Mathebula
	Mrs R. Mokebe
	Mr B. Seopasengwe
	Ms M. Mokoena
	Ms M. Thelejane
	Mr D. Mokotedi
	Mr A. Mbulawa

Transcations relating to key management personnel are disclosed in note 30 and have been accounted for according to IPS 23

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

44. Prior year adjustments

1. Other Receivables from exchange transcations (note 10)

As previously reported	**26,043,224**
Prior period correction	5,891,655
Revised balance	**31,934,879**

Restatement of corresponding figures as a result of MIG grants being used more than the allocated amount and the over expendinture will be recovered from National Department in the following in the following year.

2. Investment Property (note 3)

As previously reported	**693,581,994**
Prior period correction	-98,927,105
Revised balance	**594,654,889**

Duplicated properties which was previously included in the BIQ financial system and IMQS system which is used for Infrastructure assets. Change of fair value adjustment as all the immoveable assets of Mogale City has been revalued at the correct amount.

3. Property Plant and Equipment (note 4)

As previously reported	**4,661,303,672**
Prior period correction	239,374,826
Revised balance	**4,900,678,498**

Properties in Chief Mogale development which was never accounted for, assets which was wrongly classified in Operational Budget instead of Capital Budget, correction of the amount of capital spares and correction of Vat in WIP's votes and the new valuation of assets. Valuation changes done on Property Plant and equipment because of Mogale City not being able to prove opening balance to the auditors for the year 2011. Mogale City received qualification audit opinion as a result of that.

Effect is as follows:

Valuation of assets and capitalisation	195,729,471
WIP reclassification and capitalisation	43,645,355
Total	**239,374,826**

4. Intagible assets (note 5)

As previously reported	**6,226,216**
Prior period correction	-298,194
Revised balance	**5,928,022**

Classification error on intagibles previously reported.

5. Unspent conditional Grants (note 15)

As previously reported	**12,311,737**
Prior period correction	-1,874,190
Revised balance	**10,437,547**

Conditions met on grants which was not previuosly recognised .

6. Current Provisions(note 16)

As previously reported	**60,194,928**
Prior period correction	-48,564,934
Revised balance	**11,629,994**

Reclasification of Bonus Accrual and Leave Accrual to trade and other payables from exchange transcation.

7. Trade and other payables from exchange transcations (note 17)

As previously reported	**249,932,818**
Prior period correction	47,947,744
Revised balance	**297,880,562**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

44. Prior year adjustments (continued)

Correction of VAT on trade payables which was erronously reported, re-classification of leave accrual from provision and reclassification of bonus provision to trade and other payables. Reclaasification of Bonus Accrual and Leave Accrual from Current Provisions

8. VAT Payable(note 20)	
As previously reported	**65,106,591**
Prior period correction	-1,261,293
Revised balance	**63,845,298**

Correction of VAT on trade payables which was erronously reported.

9. Accumulated Surplus Deficit	
As previously reported	**4,988,475,576**
Prior period correction	149,793,856
Revised balance	**5,138,269,432**

Correction on income and expenses previously recorded as a results of VAT and conditions met on grants as well, Fair value changes on investment property.

Properties in Chief Mogale development which was never accounted for, assets which was wrongly classified in Operational Budget instead of Capital Budget, correction of the amount of capital spares and correction of Vat in WIP's votes and the new valuation of assets. Valuation changes done on Property Plant and equipment because of Mogale City not being able to prove opening balance to the auditors for the year 2011.

Effect is as follows:	
Valuation of assets and capitalisation	-195,729,471
WIP reclassification and capitalisation	-43,645,355
Income and Expenses	89,580,970
Totals	**149,793,856**

10. Government Grants and subsidies(note 26)	
As previously reported	**260,806,280**
Prior period correction	7,765,845
Revised balance	**268,572,124**

Conditions met on grants which was not previously recorded.

11. Income from agency services	
As previously reported	**14,878,605**
Prior period correction	1,047,519
Revised balance	**15,926,124**

Correction of VAT which was erroneously accounted for.

12. Other income(note 29)	
As previously reported	**93,263,489**
Prior period correction	-16,070,652
Revised balance	**77,192,837**

Changes in the fair value adjustments of investments property as all the immoveable assets of Mogale City has been revalued at the correct amount.

13. Employee related costs(note 30)	
As previously reported	**373,286,626**
Prior period correction	-15,918
Revised balance	**373,270,708**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

44. Prior year adjustments (continued)

Changes made to correct GFS item code between BIQ Financial System and Caseware Financial System.

14. Depreciation & Armotisation(note 32)		
As previously reported	**209,307,267**	
Prior period correction	13,670,863	
Revised balance	**222,978,130**	

Depreciation changes as a result of new valuations done on Property Plant and equipment due to the fact that Mogale City were unable to provide sufficient supporting documents to proof changes on opening balance for 2010/11 audit.

15. Impairments of assets(note 33)		
As previously reported	**0**	
Prior period correction	4,738,270	
Revised balance	**4,738,270**	

Reclassification of Impairments which was erroneously accounted for in the depreciation expenses and was also ommited in the assets register.

16. Contracted Services(note 35)		
As previously reported	**76,831,970**	
Prior period correction	45,652,974	
Revised balance	**122,484,944**	

Reclasssification of contracted services to and from general expenses as a result of changes of classification between GFS items in BIQ Financial System and mapped information on Caseware. Correction of VAT which was erroneously accounted for on the expenses votes e.g telephone expenses. all the changes where done in terms of correct GFS item code in BIQ financial and caseware financial system.

17. Grants and subsidies Paid(note 36)		
As previously reported	**4,739,136**	
Prior period correction	1,745,313	
Revised balance	**6,484,449**	

Changes made to correct GFS items code between BIQ Financial System and Caseware.

18. Bulk purchases(note 37)		
As previously reported	**437,900,851**	
Prior period correction	2,496,606	
Revised balance	**440,397,457**	

Changes made to correct GFS items code between BIQ Financial System and Caseware.

19. collection costs		
As previously reported	**4,053,417**	
Prior period correction	11,968,350	
Revised balance	**16,021,767**	

Changes made to correct GFS items code between BIQ Financial System and Caseware.

20. Repairs and maintenance		
As previously reported	**88,692,792**	
Prior period correction	-442,445	
Revised balance	**88,250,347**	

Correction of VAT which was erroneously accounted for.

21. General Expenses(note 39)		
As previously reported	**192,039,751**	

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

44. Prior year adjustments (continued)

Prior period correction	-61,992,076	
Revised balance	**130,047,675**	

Reclasssification of general expenses to and from contracted services. This a result of changes of classification due to wrong mappings between Caseware and GFS items in Mogale City Trial balance. VAT which was erroneously accounted for on the expenses votes e.g telephone expenses.all the changes where done in terms of correct GFS items code in BIQ Financial System and Caseware.

The correction of the error(s) results in adjustments as follows :

Statement of financial position

Other receivables from exchange transcations	-	5,891,655
Investment property	-	(98,927,105)
Property plant and equipment	-	239,374,826
Intangible assets	-	(298,194)
Unspent conditional grants	-	1,874,190
Current provisions	-	48,564,934
Trade and other payables from exchange transactions	-	47,947,744
VAT payable	-	1,261,293
Accumulated surplus/(deficit)	-	(149,793,856)

Statement of Financial Performance

Government grants and subsidies	-	(7,765,845)
Income from agency services	-	(1,047,519)
Other income	-	16,070,652
Employee related costs	-	(15,918)
Depreciation and amortisation	-	13,670,863
Impairments	-	4,738,270
Contracted Services	-	45,652,974
Grants and subsidies paid	-	1,745,313
Bulk purchases	-	2,496,606
Collection costs	-	11,968,350
Repairs and maintenance	-	442,445
General expenses	-	(61,992,076)

45. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 14, cash and cash equivalents disclosed in note 12, and equity as disclosed in the statement changes in net assets.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of changes in net assets plus net debt.

The municipality's strategy is to maintain a gearing ratio of between 0.04% to 0.01%.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Notes to the Annual Financial Statements

Figures in Rand		2012	2011

45. Risk management (continued)

The gearing ratio at 2012 and 2011 respectively were as follows:0.16% and 0.15%.

Total borrowings			
Finance lease obligation	14	21,236,614	14,340,197
Other financial liabilities	18	195,093,029	205,698,195
		216,329,643	**220,038,392**
Less: Cash and cash equivalents	12	43,775,288	39,335,662
Net debt		172,554,355	180,702,730
Total equity		5,202,777,273	5,137,572,840
Total capital		**5,375,331,628**	**5,318,275,570**

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecast are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 100% of its borrowings in fixed rate instruments. During 2012 and 2011, the municipality’s borrowings at variable rate were denominated in the Rand value.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade and other receivable from non exchange transcations and consumer debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Market risk

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
(b) the methods and assumptions used in preparing the sensitivity analysis; and
(c) Changes from the previous period in the methods and assumptions used, and the reasons for such changes.”

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

Figures in Rand	2012	2011

46. Unauthorised expenditure

General expenses	49,376,502	11,823,672
Less: amounts condoned	-	(11,823,672)
	49,376,502	**-**

2012
General expenses line item indicate an over expenditure. The over-expenditure is as a result of the non cash items which increased due to the fact that some infrastructure assets were written off and replaced with the new ones. Below are the caterorised items that have exceeded the budget :
Debt imparment : exceeded the budget by R 12,031, 763
Depreciation and amortisation : exceeded budget by R 5, 605, 082
Assets write off expense account: exceeded budget by R 25,761,803
Contributions to Bonus, Overtime and Gratuity exceeded budget by R2,673,528
Leave Provision exceeded budget by R900, 995
WCA Contributions exceeded budget by (R269, 736)
Labour Sheets exceeded budget by (R774, 513)
Interests on post employement medical and long services awards R 2,908,008

2011
The general expenses relates to all the expenses incurred by the municipality in total and is been condoned by council. The main contibutor is bulk purchases.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2,913,122	2,066,850
Amount paid - current year	(2,913,122)	(2,066,850)
	-	**-**

Audit fees

Opening balance	-	4,468
Current year subscription / fee	2,696,741	2,820,318
Amount paid - current year	(2,696,741)	(2,824,786)
	-	**-**

PAYE and UIF

Opening balance	3,909,561	3,557,271
Current year subscription / fee	56,143,276	52,830,346
Amount paid - current year	(52,001,849)	(48,596,890)
Amount paid - previous years	(3,909,561)	(3,881,166)
	4,141,427	**3,909,561**

Pension and Medical Aid Deductions

Opening balance	11,852	5,926
Current year subscription / fee	101,995,969	86,990,935
Amount paid - current year	(101,991,301)	(86,985,009)
	16,520	**11,852**

Councillors' arrear consumer accounts

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Ndlovu TV	326	1,344	1,670
Magodielo C	1,529	-	1,529
Molefi J&M	968	-	968
Kourcos A	1,670	7,464	9,134
	4,493	**8,808**	**13,301**

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Dikgale LC	689	3,661	4,350
Dintoe MS	853	3,711	4,564
Gogotya NM	999	5,550	6,549
Lekone J	1,607	1,860	3,467
Magodielo C	324	2,749	3,073
Mangole K	891	5,344	6,235
Molapo PT	686	3,941	4,627
Mpanza BJ	1,091	5,888	6,979
Putilli L	953	5,065	6,018
Ramafoko MA	307	859	1,166
Seemela E	515	3,917	4,432
	8,915	**42,545**	**51,460**

2011
During the year the following Councillors: Dikgale LC, Dintoe MS, Lekone J, Putilli L and Ramafoko MA had arrear accounts outstanding for more than 90 days, their term expired on the 31 May 2011.

48. Biological assets

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Biological assets	3,395,876	-	3,395,876	-	-	-

Reconciliation of biological assets - 2012

	Opening balance	Additions	Total
Biological assets	-	3,395,876	3,395,876

Reconciliation of biological assets - 2011

Details of assets

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

48. Biological assets (continued)

Quantities of each biological asset

Wildebeest	369,796	-
Blesbuck	681,465	-
Eland	365,725	-
Gemsbuck	68,419	-
Giraffe	53,341	-
Impala	141,309	-
Kudu	51,796	-
Lion	350,000	-
Ostrich	9,691	-
Hartbees	595,731	-
Sable	383,594	-
Springbuck	124,075	-
Waterbuck	105,948	-
Zebra	94,986	-
	3,395,876	**-**

Biological assets were valued by independent accredited valuer as at the 30 June 2012.

49. Operating lease asset/Liabilities

Current assets	398,477	361,893
Non-current liabilities	(128,619)	-
Current liabilities	(482,394)	-
	(212,536)	**361,893**

50. Audit committe remuneration

Fees	144,885	282,225

51. Events after the reporting date

2012
No events after reporting date was identified on the current year.

2011

Municipality incurred an over-expenditure on general expenses as at the 30 June 2011, Howver council condoned it on 26th October 2011. This was done by identifying savings on the votes which have not overspent as per approved budget policy of the municipality

General expenses

General expenses	-	11,823,672

Figures in Rand	2012	2011

52. Fruitless and wasteful expenditure

Technical review on AFS 09/10	-	217,448
Other	-	437,142
Eskom & Rand Water	4,214,522	-
	4,214,522	**654,590**

2012

The municipality incurred fruitless and wastefull expenditure on Eskom and Rand Water Accounts respectively as a results of of late payments.

2011

The municipality incurred an expenditure of R 217, 448 on the review of the financial statement which never yieded results and the work done was not worth the price quoted.
An amount of R 433,554.81 relates to penality regarding late submission to the compensation commisioner in 2010/11 and R 3,587 relates to late payment for MEU retirement fund.

53. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	195,093,029	205,698,195
Used to finance property, plant and equipment	178,388	(44,924,658)
	195,271,417	**160,773,537**

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

54. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

54. Deviation from supply chain management regulations (continued)

COUNCIL ITEM NR	K(ii) 3(10/2011)
DESCRIPTION	Unforeseen escape of four buffaloes from Krugersdorp Game Reserve
AWARDED TO	M Prangley Wildlife Services
AMOUNT	R 109,755.95
SECTION	36(1)(a)(i)

COUNCIL ITEM NR	K(ii) 3(10/2011)
DESCRIPTION	Assesement of the Waste Water Treatment Works and Sewarage Pump Stations, in order to compile a maintenance audit report and to capture data on the municipal assistant software system
AWARDED TO	WAM Technology cc
AMOUNT	R 517,400 (excluding VAT)
SECTION	36(1)(a)(ii)

COUNCIL ITEM NR	K(ii) 3(1/2012)
DESCRIPTION	Conclusion of the jobsfund applications and the related business plans on behalf of MCLM
AWARDED TO	SWH advisory services (PTY) Ltd
AMOUNT	Appointment based on risk. If funding applications are successful and approved by DBSA, MCLM will pay according to scales based on funding received from DBSA: R 50 m -1.75% R 100 m - 1.5% R 150 m - 1.25%
SECTION	36(1)(a)(v)

COUNCIL ITEM NR	K(ii) 3(1/2012)
DESCRIPTION	Appointment of Intergrasol to provide council with leave management services, encompassing a reconciled leave balance at financial year end and the updating of leave management functions from Jan to June 2011
AWARDED TO	Intergrasol Consortium CA (SA)
AMOUNT	Quotation September 2011: R 355,308 Quotation October 2011 : R 309,828
SECTION	36(1)(a)(v)

COUNCIL ITEM NR	K(ii) 3(01/2012)
DESCRIPTION	Appointment of acutech business solutions for the roll out of phase 2 of the enterprise project management and microsoft sharepoint 2010
AWARDED TO	Acutech business solutions
AMOUNT	R 300,000 (excluding VAT)
SECTION	K(ii) 3(01/2012)

COUNCIL ITEM NR	K(ii) 3(01/2012)
DESCRIPTION	Extension of scope of work for tender i (W&S) 04/2010: Maintenance of water and wastewater equipment in MCLM - immediate action was required to prevent further spillages as a result of the mal-functions Boiketlho, Rietvallei EXT 1 and 5 Sewer pumpstations and Kagiso 12 Resevoir
AWARDED TO	Tecroveer (Pty) Ltd
AMOUNT	Contract Value increased from R 15, 517,743.67 to R 22, 601, 357.67
SECTION	36(1)(a)(i)

COUNCIL ITEM NR	K(ii) 3(01/2012)
DESCRIPTION	Development of a township regeneration strategy, business plans and project plans in terms of the Neighbourhood Development Partnership Grant(NDPG)
AWARDED TO	Afro Architectual
AMOUNT	Payment through MDPG grant received from National Treasury No conter funding from MCLM at this stage
SECTION	36(1)(a)(v)

Notes to the Annual Financial Statements

54. Deviation from supply chain management regulations (continued)

COUNCIL ITEM NR	K(ii) 2(04/2012)
DESCRIPTION	Extension of Fidelity Security Services contract for a period of two months
AWARDED TO	Fidelity Security Services
AMOUNT	R1 114 000 pm for two months
SECTION	36(1)(a)(v)

COUNCIL ITEM NR	K(ii) 2(04/2012)
DESCRIPTION	Extension of Fidelity Security contract for a period of two months
AWARDED TO	Fidelity Security Services
AMOUNT	R1,114,000
SECTION	36(1)(a)(v)

COUNCIL ITEM NR	K(ii) 2(04/2012)
DESCRIPTION	Extension of contract with Protea Eco Adventures for management of game reserve until award of new tender (June 2012)
AWARDED TO	Protea Eco Adventures
AMOUNT	R 80,000 pm
SECTION	36(1)(a)(v)

COUNCIL ITEM NR	K(ii) 2(04/2012)
DESCRIPTION	Extension of contract for the review of organasational transcation data and recovery of money
AWARDED TO	Comperio Technologies (Pty) ltd
AMOUNT	The fee (exclusive of VAT) is based on actual recoverables facilitated and is calculated on 20% of all recoverables
SECTION	36(1)(a)(v)

COUNCIL ITEM NR	K(ii) 2(04/2012)
DESCRIPTION	Provision of an Electronic Local Government Perfomance and Compliance Manual
AWARDED TO	Local Government Perfomance and Compliance Solutions
AMOUNT	R 24,000 (excluding VAT) Subscription for 2 officials for 12 months
SECTION	36(1)(a)(ii)

COUNCIL ITEM NR	K (ii) 2(04/2012)
DESCRIPTION	Appointment of Aloe Cap as sole advisor on the risk-sharing model to enhance collection of debtors book for a period of 3 years
AWARDED TO	Aloe Cap
AMOUNT	Provincial Government is financing the project. An admin fee of 1% of gross collection received by MCLM payable to Aloe Cap for duration of contract (to be negotiated)
SECTION	36(1)(a)(v)

COUNCIL ITEM NR	K(ii) (07/2012)
DESCRIPTION	Extension of BIQ Financial System for a period of six months as from 1 May to 31 October 2012
AWARDED TO	Quill Associates (Pty) Ltd
AMOUNT	R 330,000 pm (excluding VAT)
SECTION	36(1)(a)(ii)

COUNCIL ITEM NR	K(ii) (07/2012)
DESCRIPTION	Appointment of ERWAT(an acredited laboratory) to analyze five samples of wastewater effluent per week for a period of one year as per prescribed in the green drop
AWARDED TO	ERWAT
AMOUNT	Expenditure per week R 3,904.50 (including VAT) Total will not exceed R 200,000 for period of one year
SECTION	36(1)(a)(v)

54. Deviation from supply chain management regulations (continued)

COUNCIL ITEM NR	K(ii) (07/2012)
DESCRIPTION	Extension of scope of work for the review of the organisational transactional data by Comperio Forensic Services
AWARDED TO	Comperio Forensic Services
AMOUNT	Fixed rate of R 180,000 (excluding VAT)
SECTION	36(1)(a)(v)
COUNCIL ITEM NR	K(ii) (07/2012)
DESCRIPTION	Training on HIV Counselling and testing for cluster supervisors and ward based volunteers-condonation as only three quotations were obtained and not advertised on the website
AWARDED TO	Empirical Training Agency
AMOUNT	R 69,654 (including VAT)
SECTION	36(1)(a)(v)
COUNCIL ITEM NR	K(ii) (07/2012)
DESCRIPTION	Procuring of 3-way electrical meter boxes- Condonation. Tender I (E)08/2009 has expired and stores purchased stock for electricity project from expired tender
AWARDED TO	Power Process Systems
AMOUNT	R 114,570
SECTION	36(1)(a)(v)
COUNCIL ITEM NR	K(ii) (07/2012)
DESCRIPTION	Extension of scope of work for tender F (R) 06/2009: Management of Credit Control and Revenue Protection Aministration and related field actions for a period of three years to include the replacement of dysfuntional water meters in featherbrook estate with pre-paid water meters
AWARDED	UMS. (PES- Utility) Part of existing tender which allows for replacement of credit type water meters, repair of water leaks and cleaning of meter boxes.
SECTION	36(1)(a)(v)

Notes to the Annual Financial Statements

Figures in Rand

55. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	253,083,508	256,401,869	256,401,869	259,477,567	(3,075,698)	101 %	103 %
Service charges	963,514,879	981,567,613	981,567,613	951,363,075	30,204,538	97 %	99 %
Investment revenue	2,272,052	534,306	534,306	8,202,661	(7,668,355)	1,535 %	361 %
Transfers recognised - operational	200,723,782	213,882,333	213,882,333	201,607,680	12,274,653	94 %	100 %
Other own revenue	68,416,807	93,643,240	93,643,240	266,064,356	(172,421,116)	284 %	389 %
Total revenue (excluding capital transfers and contributions)	**1,488,011,028**	**1,546,029,361**	**1,546,029,361**	**1,686,715,339**	**(140,685,978)**	**109 %**	**113 %**
Employee costs	(418,215,160)	(406,311,625)	(397,067,510)	(397,067,503)	(7)	100 %	95 %
Remuneration of councillors	(19,312,096)	(19,312,096)	(17,954,208)	(17,954,208)	-	100 %	93 %
Debt impairment	(80,527,665)	(70,176,349)	(70,176,349)	(82,208,112)	12,031,763	117 %	102 %
Depreciation and asset impairment	(10,453,189)	(209,307,267)	(209,307,267)	(214,912,345)	5,605,078	103 %	2,056 %
Finance charges	(22,983,573)	(25,308,849)	(42,377,409)	(45,285,417)	2,908,008	107 %	197 %
Materials and bulk purchases	(484,452,445)	(549,582,727)	(540,934,961)	(540,934,961)	-	100 %	112 %
Transfers and grants	(7,235,606)	(18,163,666)	(19,893,178)	(19,893,178)	-	100 %	275 %
Other expenditure	(331,432,313)	(365,733,474)	(366,185,171)	(395,016,820)	28,831,649	108 %	119 %
Total expenditure	**(1,374,612,047)**	**(1,663,896,053)**	**(1,663,896,053)**	**(1,713,272,544)**	**49,376,491**	**103 %**	**125 %**
Surplus/(Deficit)	**113,398,981**	**(117,866,692)**	**(117,866,692)**	**(26,557,205)**	**(91,309,487)**	**23 %**	**(23)%**

Notes to the Annual Financial Statements

Figures in Rand

55. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	115,424,178	102,105,697	102,105,697	91,065,026	11,040,671	89 %	79 %
Surplus (Deficit) after capital transfers and contributions	**228,823,159**	**(15,760,995)**	**(15,760,995)**	**64,507,821**	**(80,268,816)**	**(409)%**	**28 %**
Surplus/(Deficit) for the year	**228,823,159**	**(15,760,995)**	**(15,760,995)**	**64,507,821**	**(80,268,816)**	**(409)%**	**28 %**

Notes to the Annual Financial Statements

Figures in Rand

55. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	226,212,770	176,951,393	176,951,393	169,406,161	7,545,232	96 %	75 %
Cash flows							
Net cash from (used) operating	363,863,637	363,863,637	363,863,637	363,856,572	7,065	100 %	100 %
Net cash from (used) investing	(349,769,538)	(349,769,538)	(349,769,538)	(349,769,538)	-	100 %	100 %
Net cash from (used) financing	(9,647,408)	(9,647,408)	(9,647,408)	(9,647,408)	-	100 %	100 %
Net increase/(decrease) in cash and cash equivalents	**4,446,691**	**4,446,691**	**4,446,691**	**4,439,626**	**7,065**	**100 %**	**100 %**
Cash and cash equivalents at the beginning of the year	43,775,288	43,775,288	43,775,288	43,775,288	-	100 %	100 %
Cash and cash equivalents at year end	**48,221,979**	**48,221,979**	**48,221,979**	**48,214,914**	**7,065**	**100 %**	**100 %**

Refer to note 46 for narrative reasons for variances.